Cracking the Conundrum

An investor and policy view to leverage standardization of environmental and social disclosure and reporting

Prepared by:

cKinetics

This report is being written at a time when the landscape for Environmental and Social disclosure and reporting is rapidly evolving in India. When the research was being conceived in mid 2011, there was little discussion on the subject and investors in India (who have been a key constituency for this report) were still recovering from the aftermath of the financial meltdown of 2009.

During the course of the research, several groundbreaking voluntary and mandatory requirements were announced and have been making their way into the mainstream. They are profiled in this report and hold promise to change the way businesses and investors look at Environmental and Social impact of their actions.

The cKinetics team is thankful to the Rockefeller Foundation for supporting this research effort.

The team is also thankful to the investors, standards bodies, progressive businesses, policy-makers and many other experts who participated in the surveys, deliberations, interviews and workshops.

Some of the workstreams listed in the conclusion of this report are being announced at the time that this report is going into print. To stay updated with the happenings in this space as it rapidly evolves; and to get involved in the future of "Cracking the Conundrum", please visit:
www.cKinetics.com/crackingtheconundrum

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cKinetics is a specialized sustainability advisory firm working with investors and businesses in emerging markets. With offices in New Delhi and Palo Alto, the team comprises cross-functional specialists that leverage elements of markets and management resources across geographies in carving sustainable growth oriented solutions.

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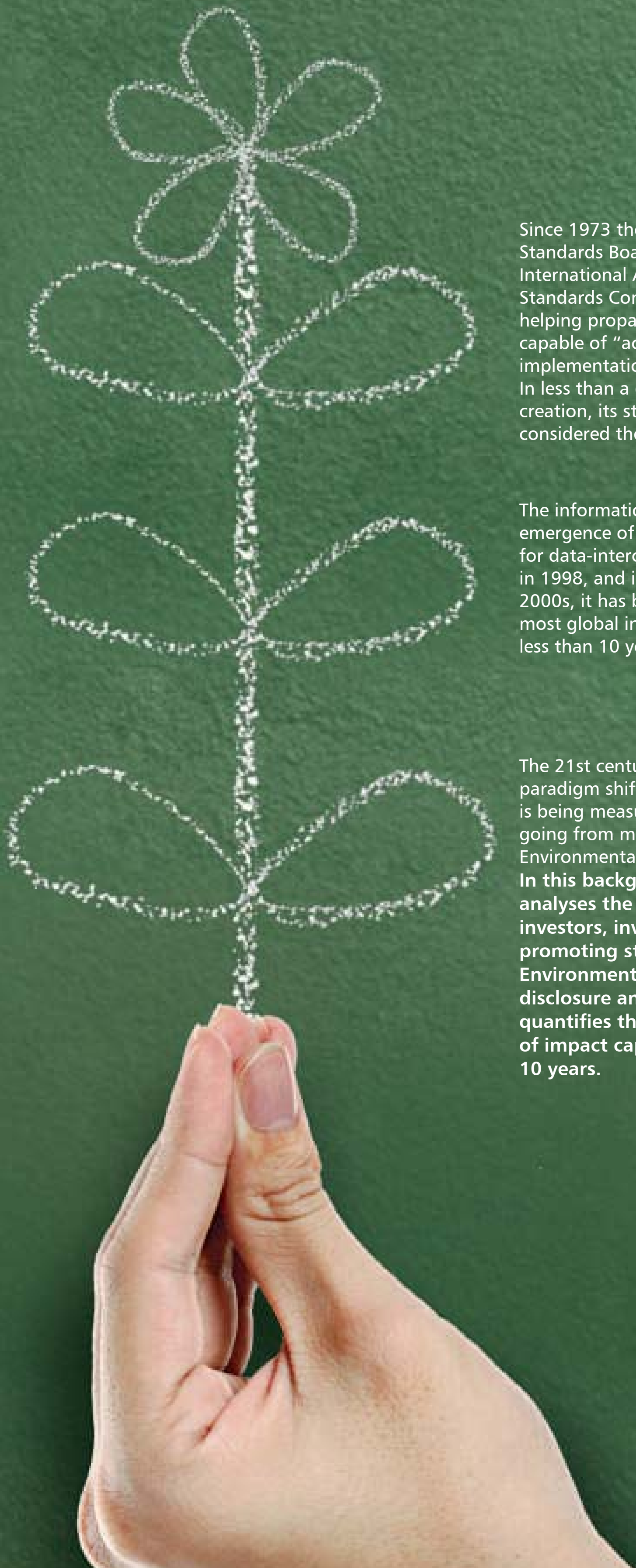
LANGUAGE FOR TRACKING WEALTH HAS KEPT UP WITH THE TIMES...



Trade formed the bedrock of the earliest accounting systems and languages: the Rig Veda (India) detailed processes around Vanij (Merchant), Kraya (sale) and Sulka (price), the Code of Hamurabi (Mesopotamia, 2200BC) laid out standards for recording transactions, and the growth of trade lead to standards in coinage and currency.

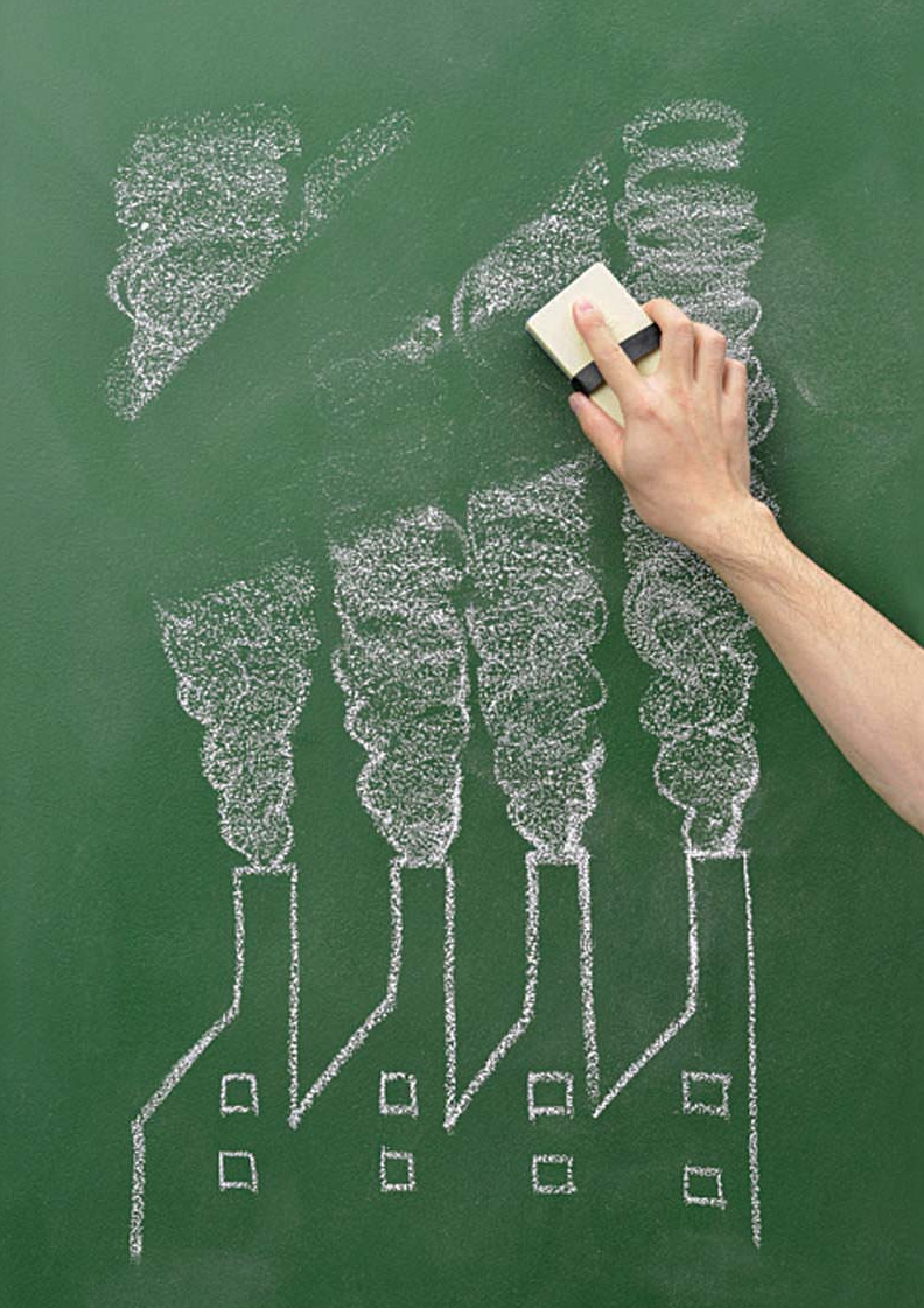
As asset holdings became widespread in the medieval ages, the use of Arabic numerals became standardized. This period (1400-1600 AD) also saw the invention of the double-entry book keeping system, popularized through the work of a Franciscan Friar Luca Pacioli.

With the dawn of Industrial age, formal systems of tracking wealth, as we know today, emerged. The first Institute of Chartered Accountants was formed in 1880 in 'England and Wales' with 587 members, and in less than 30 years, their standards and practices proliferated worldwide.

Since 1973 the Accounting Standards Board (erstwhile International Accounting Standards Committee) has been helping propagate standards capable of "acceptance and implementation worldwide". In less than a decade since its creation, its standards are considered the norm.

The information age has seen the emergence of XBRL as a standard for data-interchange. Conceived in 1998, and introduced in mid-2000s, it has been adopted by most global investing centers in less than 10 years.

The 21st century has brought a paradigm shift in the way wealth is being measured by investors: going from monetary terms to Environmental and Societal value. **In this background, this report analyses the interest of investors, investing in India, in promoting standardized Environmental and Social disclosure and reporting: and quantifies the resultant supply of impact capital in the next 10 years.**



PREFACE

As India and the world grapple with the repercussions of environmental degradation, resource scarcity and unchecked urban growth, it is becoming resoundingly apparent that a paradigm shift is needed in the way countries and economies should grow and be allowed to grow.

India stands at a unique crossroad of needing both sustained and sustainable growth to provide for its burgeoning population. Although this presents an immense opportunity, it also makes it imperative that corporate India rises up to the challenge of being responsible in the holistic sense i.e. economically responsible, environmentally responsible and socially responsible.

It is to this end that the Ministry of Corporate Affairs in India took a step forward in envisaging and establishing the National Voluntary Guidelines of Social, Economic and Environmental and Social Responsibilities of Businesses (NVGs), which, through its nine principles, defines what a responsible business should be, how it should conduct operations, and the impact indicators it should measure and report.

As, we at the Indian Institute of Corporate Affairs, continue to strive to steer businesses in this direction, it is indeed heartening to witness the outlook of investors; who are not only a key stakeholder in businesses, but also a key constituency and ally in the driving of business responsibility.

Investor convergence on the issue of Environmental and Social disclosure and reporting, as elucidated in this report, provides a strong platform for achieving increased and improved impact measurement and reporting. This report corroborates the Indian policy direction that there is a strong case for taking into account environmental and social considerations in business operations.

I congratulate cKinetics for the remarkable steps they have taken in identifying and coalescing investors, who hold the key to 'Cracking the Conundrum'. We will continue to engage with investors and cKinetics in their emerging work-streams.

Dr. Bhaskar Chatterjee
Director General & CEO

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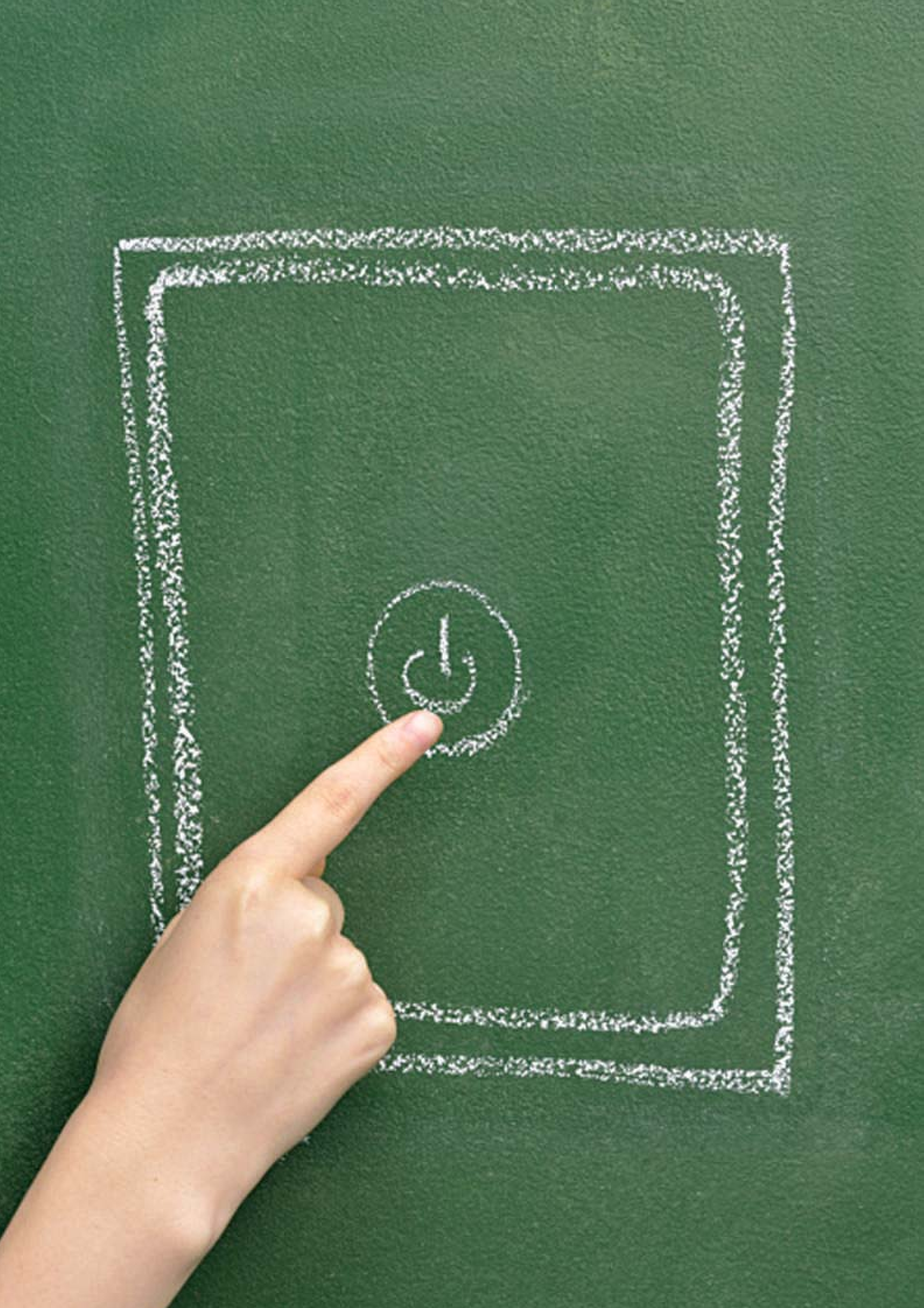


CONTEXT

An emerging group of investors, globally and in India, are looking beyond the customary financial returns, and integrating Environmental and Social (E&S) information in their investment decision making. The advent of these investors and their needs have been manifested in an increasing demand for greater disclosure and reporting of E&S information by businesses in India. However, E&S information currently is both limited and scattered. This background predicates the question: Can such investors, which are using E&S information and targeting India, find a standardized and reliable means to get this information and make investment decisions more effectively?

'Cracking the Conundrum' details how investors can converge to crack the key conundrum of standardization of E&S disclosure and reporting: 'a standard will get accepted only if it has a large number of adopters, however adoption will only happen if a standard gets accepted'.

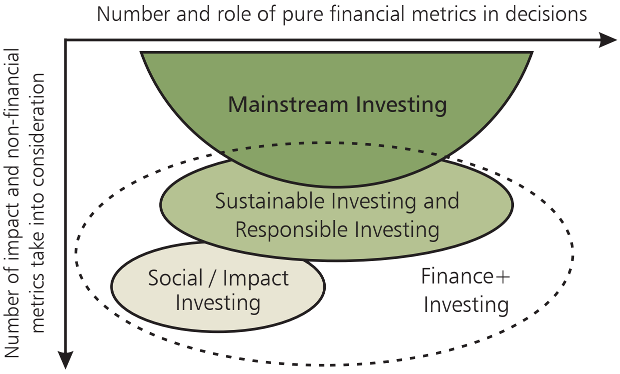
Investment decision making processes, traditionally, have been centered on one crucial element – managing the result of capital deployed to ensure adequate returns. There is underway, however, a paradigm shift in the way return is evaluated and managed – from creating purely financially sustainable enterprises toward creating environmentally, socially and financially sustainable enterprises.

As a growing number of investors realize that financial returns cannot be delineated from environmental and social impact, there is emerging, a group of investors who are looking beyond conventional financial metrics and taking into cognizance, Environmental and Social (E&S) information while deploying capital.

Finance+ Investors

The investors described above represent a range of asset classes. Depending upon the nature and size of their investments, different names have been accorded to these investors, such as Impact Investors, Socially Responsible Investors, Sustainable Investors, Sustainable Lenders etc; all signifying a growing disposition to look beyond pure profit. In this document, all such investor groups are collectively referred to as **Finance+ investors**[1].

Defining Finance+ investors



As per the latest estimates developed by cKinetics, these investors represent ₹3trillion ($55 billion) in India, which is 1% of the world's total responsible capital. In addition to this, Indian and Global banks are lending ₹4.4 trillion ($80 billion) to sectors, in which E&S factors are considered.

The key features of Finance+ investors are that they tend to be long term in nature and are also able to provide capital at lower costs as compared to mainstream investors. This is on account of one or both of the following factors:

a. Lower risk of their portfolio owing to appropriate factoring of E&S related risks

b. Ability to raise capital at lower costs

With the growth in Finance+ investors, comes a growing need for accurate and readily available E&S information, to enable them to evaluate E&S risks and impact of businesses. Despite this surge in demand of information, sustainability disclosure and reporting by companies on E&S parameters is still at a nascent stage. This hampers the ability of Finance+ investors to gauge the true impact and risks of businesses.

Presently Finance+ investors and businesses are operating on different planes: Finance+ investors are constantly looking for a reliable flow of investment opportunities with a positive E&S impact and businesses are constantly looking to access cheaper and greater sources of capital. Thus, it follows that both Finance+ investors and businesses in India are in a position to benefit with increased and standardized E&S disclosure and reporting – investors will have access to comparable, consistent and timely E&S data and businesses will have an ability to tap capital at lower costs.

In the present scenario, businesses are still scattered, but Finance+ investors are finite in number and also represent cohesive groups with overlapping interests. This presents an interesting question: **Can Finance+ investors, investing in India, converge to drive standardized E&S disclosure and reporting from businesses; which, in turn, can start the virtuous cycle of increased reporting of standardized E&S data leading to greater inflow of Finance+ Capital?**

‘There is underway a paradigm shift in the way investors view and manage results: from looking at purely financially sustainable enterprises toward evaluating environmentally, socially and financially sustainable enterprises’

This document, written with an investor lens, addresses the question on the previous page and outlines the nature of interest amongst Finance+ investors targeting India to align. The following questions are answered through this document:

1) What is the nature of investor interest (across different kinds of investors) in incorporating E&S measures?
2) Can investors converge behind a standardized reporting framework for E&S information; if yes, what would be the nature and contours of this framework?
3) What are the steps required to catalyze the adoption of a common disclosure/ reporting framework (i.e. standardized E&S disclosure and reporting), by also engaging with appropriate policy makers and other stakeholders?
4) What would be the resultant impact of this disclosure/ reporting framework on the capital flow?

Lens for this report: Investors targeting India

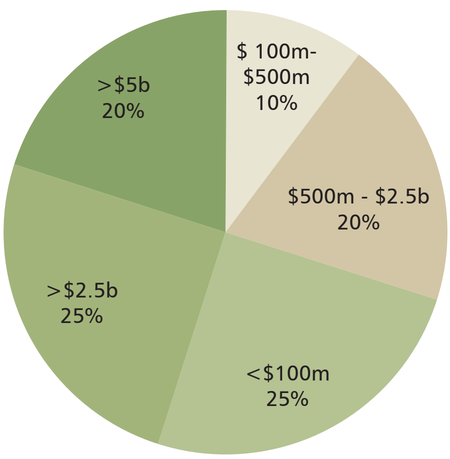
This report takes the perspective of investors targeting India with the objective of ascertaining the role played by, and the impact created by Finance+ investors.

Over 80 different institutional investors across 14 asset classes have been engaged, through consultations, interviews, panel discussions etc, to provide inputs and contribute to the insights presented in this report.

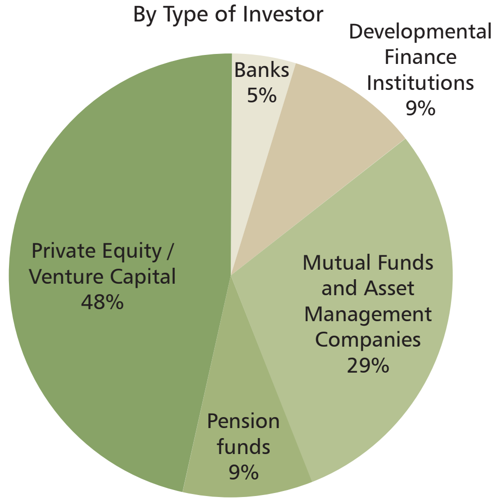
The following figure depicts the classification of the investors engaged, across asset classes and investment sizes.

Classification of investors engaged in the study

By Assets Under Management



By Type of Investor



Although the focus of the report is on Finance+ investors, the report will also find relevance in mainstream (Finance only investors), as they increasingly adapt to growing E&S risks and regulations.

List of investor engagements, which have helped develop the perspectives, put forth in this document

Through 2011 and 2012, the following engagements were conducted with a diverse group of investors for the twin purpose of (i) developing understanding and insights, and (ii) validating the findings.

1) Individual consultations with over 80 investors and catalysts
2) Investor survey to determine the nature of interest in E&S Data
3) Investor input on interim working paper ‘Landscape of Environmental and Social Performance Disclosure and reporting’
4) Investor Roundtable on **‘Building a view on a common framework for Environmental and Social Disclosure and reporting’**
5) Consultation and feedback on the ‘Annual Business Responsibility Report’ developed by the Ministry of Corporate Affairs of India, and mandated by the Securities and Exchange Board of India (SEBI) for India’s 100 largest listed companies.

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TERM	DEFINITION
Asset Allocation	Bifurcation of investment funds into broad categories based on asset types, geographies, instruments, sectors etc.
Asset Manager	A company which manages assets / money for clients, offering a range of financial products
Assurance	Statement by creditable companies (often third parties) on the veracity of the information disclosed by companies
Assets under Management (AUM)	Market value of assets that an investment company manages / invests
Benchmark	Measurement of an investment's / business' performance against a baseline, which is often created through peer / market indexing or best in class
Capital Flow	Net of investments made in a specified period within a defined boundary such as a firm, a country, a fund etc.
Cash Flow	Net flow of cash and equivalents due to, financing, operations, or investing
Cost of Capital	Also referred to as Weighed Average Cost of Capital, it is the cost of the funds (both debt and equity) used to finance a company's assets. In other words, it is the return given to investors and shareholders
Credit Ratings	Ratings which evaluate the credit worthiness of companies or ability to repay investors
Development Finance Institutions	Financial institutions which provide financial services to the underserved markets
Disclosure	Voluntary / mandatory release by a company of information relevant to a company and its businesses operations
Deal Flow	The rate at which a private equity fund, venture capital fund, or an investment banker receives business proposals / investment offers; the investment opportunities presented to an investor in a time-period
Entry Barriers (Barriers to entry)	Obstacles faced by an incumbent company in entering a new market
Equity Investors	Investing in, and holding of, shares of stock on a stock market by individuals and firms
eXtendible Business Reporting Language	Language for the electronic communication of business and financial data
Finance+ Investors	Investors that looking beyond just financial metrics, while making investments
Financial Products	Services offered by financial services company through which an individual or company can, makes a financial investment, manages financial risk and makes non-cash payments, and access capital
Feedstock	Raw materials used by businesses in manufacturing the final product
General Partners	Private equity funds which raise money from limited partners periodically and actively invest it in businesses for a management fee
Gross Domestic Product (GDP)	Market value of all officially recognized final goods and services produced within a country in a given period of time
Harmonization of Standards	Merging requirements of different standards to increase business flexibility, and allow businesses to easily transition from one standard to the other and users of the information, to easily extract comparable information
Impact Investors	Investors who invest to generate measurable social and environmental impact alongside a financial return
Information Broker	A service provider that acts a market place / data warehouse for information for clients
Integrated Reporting	Combining both financial and sustainability reporting, within one report or other forms of presentation
Investment Due Diligence	Investigation of investment opportunity to evaluate the financial, operational and managerial aspects, to ensure that everything is as reported

Institutional Investors	Organizations that manage assets and invest, for themselves or clients, e.g. pension funds, mutual funds, etc.
Investment Monitoring	Seeking information about an investee's ongoing performance as per covenants in a pre-decided reporting framework
Investment Screening / Screening	Investigating investment opportunities as per certain pre-determined requirements, which may include sector of operations, financial ratios etc.
KZ Index (Score)	Relative measurement of reliance on external financing and a company's ability to attract capital
Limited Partners	Large institutional investors, which invest in General Partners (other funds) for fixed duration and do not actively partake in investment decision making
Linear regression	Modeling of the relationship between a dependent variable and explanatory or independent variables
Materiality	Likelihood of the information or event having a financial impact on the company or its value
Mutual Funds	An investment vehicle consisting of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets
National Voluntary Guidelines for Social Environmental and Economic Responsibilities of Businesses (NVG-SEE)	Guidelines released by the Ministry of Corporate Affairs, Government of India, which through its 9 principles, outline the responsibilities of businesses
Socially Responsible Investing/ Social Investing	An investment philosophy that includes non-financial, ethical (e.g., social and environmental) objectives
Pension Funds	Funds managing employer's, employee's and government's contribution toward a worker's retirement
Portfolio	Group / block of investments managed by a fund / investor
Private equity	Investments by individuals and funds in stocks of businesses, which are not publically traded
Public equity	Stocks of companies, which are traded on stock exchanges
Reporting	Periodic reports by businesses to disclose financial and nonfinancial information to the government, regulators and its own stakeholders e.g. quarterly reports, annual reports
Retail Investors	Individual investors who invest in their personal capacity
Return on Capital	A financial ratio to measure the profit generated per "currency unit" of capital invested, which is an indicator of how well is the company managing its capital
Risk Adjusted Returns	Returns on an asset or investment relative to the return on assets and investments with similar risk (calculated through subtracting the rate of return of an asset with similar return from the rate of return achieved). Businesses also calculate the Risk Adjusted Rate of Return, which to present a true picture of profitability; the expected rate of return is adjusted against the value at risk
Safety and Environmental Management Systems	A set of management processes and procedures that allows organizations to manage and mitigate the environmental and social impacts of their operations
Social license to operate	Securing ongoing approval within the local community and other stakeholders, due to positive social and environmental impact created
Sovereign Fund (Sovereign Wealth Fund)	State-owned investment fund
Stakeholders	All parties that have an interest in a businesses including shareholders, employees, customers, management, the community, and the government
Structured Products	Financial products based on derivatives with a high risk-return objective, which allows clients to manage downsides and exposure, while maximizing returns
Sustainability Reporting	Often voluntary statements / reports to stakeholders and external parties on the Environmental, Social and Governance factors of businesses
Sustainability Accounting	The measurement of non-financial information aspects of a firm's performance
Tobin's Q	A ratio developed James Tobin; it is the ratio between the market value and replacement value of the same physical asset. A higher Tobin's signifies that the market values the company more than the value of the it's recorded assets
Transaction Cost	The cost involved in making an investment from deal sourcing to due diligence to closing of deal
Valuation	Determination of the value of a business based on the cash flow projections, earnings or other financial data

1. EXECUTIVE SUMMARY

1.1 BACKDROP TO THIS REPORT, ITS OBJECTIVE AND ITS FINDINGS

This research report is being written at a time where the landscape for E&S disclosure and reporting in India is rapidly evolving. The objective of the research, at the time of conception, was to identify the steps required to help bring about standardization of impact measurement of E&S related parameters, especially from an investor viewpoint.

When the research was conceived in mid 2011, there was little discussion on E&S disclosure and reporting and investors targeting India (who have been a key constituency for this report) were still recovering from the aftermath of the financial meltdown of 2009.

During the course of the research several groundbreaking voluntary and mandatory E&S disclosure and reporting requirements were announced and are presently making their way into the mainstream. Several progressive policy enactments made in this period, include, the National Voluntary Guidelines for Social Environmental and Economic Responsibilities of Business (NVG-SEE), the mandate by Securities and Exchange Board of India (SEBI) requiring the largest businesses to file an Annual Business Responsibility Report (ABRR), Guidelines on Sustainable Development and Corporate Governance for Central Public Sector Enterprises (CPSEs), and the work by the Institute of Chartered Accountants of India (ICAI) in developing a framework for sustainability reporting.

In addition to the above measures, several other non-government and voluntary efforts are also underway for promoting standardized E&S disclosure and reporting.

An analysis of the landscape of India, from the perspective of policy makers and other stakeholders, revealed that despite the aforementioned initiatives **‘widespread adoption of standardized E&S disclosure and reporting faces a conundrum: a standard will get accepted only if it has a large number of adopters, however adoption will only happen if a standard gets accepted’**.

In absence of the conundrum being addressed, ad-hoc disclosure and reporting will emerge, that will not address the original intent of many of the initiatives.

This report outlines what it would take to crack the conundrum: a category of investors (referred to as Finance+ investors) are in a position to initiate steps to break the challenge of what comes first. They form a sizeable nucleus, representing about ₹3 trillion ($55 billion) in Assets under Management, and can incentivize the businesses to adopt a standard.

Research indicates that standardization of E&S reporting will result in an increase in the annual capital flow and Assets under Management (AUM) of Finance+ investors:

- **Five Years**

  Capital flow: ₹2.2 trillion - ₹3.3 trillion ($40 billion -$60 billion)

  AUM: ₹5.5 trillion - ₹9.6 trillion ($100 billion - $175 billion)

- **Ten Years**

  Capital flow: ₹4 trillion - ₹5.5 trillion ($71 billion - $100 billion)

  AUM: ₹13.2 trillion - ₹17.3 trillion ($240 billion - $315 billion)

Within that time frame, the report also expects standardized E&S reporting to begin to emerge into the mainstream.

1.2 AN OPPORTUNE TIME TO EXPLORE STANDARDIZATION OF E&S REPORTING

Finance+ investors[1] are an emerging group of investors, which are looking beyond the customary financial returns, and integrating E&S information in their investment decision making. The advent of these investors in India has created a greater demand for E&S disclosure and reporting.

This background has resulted in an opportune timing to drive a standardized E&S disclosure and reporting framework in India due to the convergence of two factors: (i) Finance+ investors are looking to increase their exposure in India; and (ii) Indian government has implemented proactive polices to promote responsible business actions (some of these have been mentioned in 1.1).

‘The timing to drive a standardized E&S disclosure and reporting framework in India is opportune due to the convergence of two factors: (i) Finance+ investors are looking to increase their exposure in India; and (ii) Indian government has implemented proactive polices to promote responsible business actions’

‘Finance+ investors hold the key to ‘Cracking the Conundrum’ that standardization presents; a standard will get accepted only if it has a large number of adopters; on the other hand, adoption will only happen if a standard gets accepted’

1.3 THE CONUNDRUM ELABORATED

Just as financial accounting has a structured and universal language, governed by rules, principles and common terms, E&S reporting also needs to be incorporated in a standardized format so as to increase its relevance for both business and investors.

However, despite the boost that E&S reporting is receiving from all stakeholders, the different initiatives are creating isolated impacts. Most mandatory policies target just a limited number of businesses, which are either listed or government owned. While businesses lack the incentive to voluntarily comply with them, till it leads to measurable benefits (capital inflow / revenue), policy makers lack the incentive to mandate (and govern) them.

Finance+ investors also do see value in converging to drive standardization of E&S disclosure and reporting. However, their convergence is predicated on the number of businesses willing to report / adopt the format, which in turn is dependent on investor interventions driving them.

Thus standardization presents a conundrum: a standard will get accepted only if it has a large number of adopters; on the other hand, adoption will only happen if a standard gets accepted. That is the conundrum.

Fig. 1-1: elaborates this conundrum; what comes first?

Figure 1-1: Understanding the conundrum: what comes first?

1.4 FINANCE+ INVESTORS CAN LEAD THE MOVEMENT TO CRACK THE CONUNDRUM

It is on examining the question of investors convergence that, cKinetics found that ₹1 trillion ($18 billion) of capital is presently being deployed, annually, using E&S measures. These investments are being made across 5 different investment groups:

1. Development Finance Institutions: Indian as well as global
2. Global E&S funds with asset allocation towards India and investing mainly in public equities
3. Private equity asset managers that use E&S as part of their processes, and invest in both private and public equities
4. Social investors that invest in early stage unlisted companies
5. Banks with Responsible Finance initiatives (either because they are signatories to global principles or have formulated their own principles)

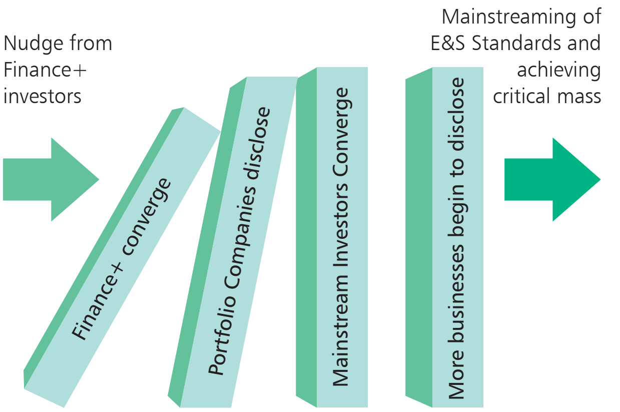
While on the surface the above investor groups appear disparate, a closer examination of the due diligence and monitoring processes reveals similarities. This presents an opportunity for collaboration where Finance+ investors can emerge as a group with similar information and data interests. This group of investors, if brought together behind a common E&S reporting framework, would hold the key to cracking the conundrum. In other words, a link of E&S indicators and measures which are commonly used across the Finance+ investor groups (from small social funds to banks) can be created to connect investors in a unified ecosystem.

The present analysis also reveals another view: that standardizing E&S disclosure and reporting measures will also generate near-term value for Finance+ investors and the businesses that disclose; in the form of additional capital access and greater valuations within an investor’s portfolio.

It should be clarified here that the approach being suggested does not require creating of a new reporting format and businesses can provide the information required, within existing formats in annual or sustainability reports. Implementing this approach using a guidance document as well as by leveraging existing institutional frameworks is detailed in Chapter 8.

Fig. 1-2 represents this approach to Cracking the Conundrum, whereby a nudge from Finance+ investors will create a domino effect.

Figure 1-2: Role of Finance+ investors in Cracking the Conundrum



1.5 GREATER CAPITAL FLOWS AS A RESULT OF STANDARDIZATION OF E&S REPORTING

As standardization of E&S reporting occurs, investors that have adopted it will increasingly interact amongst themselves. Their AUM is expected to grow from ₹3 trillion ($55 billion) presently to ₹5.5 trillion - ₹9.6 trillion ($100 billion - $175 billion) in 5 years and forecasted to be at ₹13.2 trillion - ₹17.3 trillion ($240 billion - $315 billion) in 10 years, due to:

1) Increased co-ordination between Finance+ investors

2) Increased use of E&S information by mainstream investors

The present AUM of ₹3 trillion is largely held with private equity providers like Social investors, E&S funds, SRI funds and DFIs. In addition, another ₹4.4 trillion ($80 billion) of capital is being managed by Indian and Global Banks, using the E&S criteria, due to compliance reasons. Table 1-A depicts the capital management of these investors.

Table 1-A: Assets under Management of Finance+ Investors, as in 2012

Social Investors	₹14.3 billion ($260 million)
E&S seeking funds	₹100 billion ($1.8 billion)
Indian SRI funds	₹9.3 billion ($170 million)
Global SRI Funds allocated towards India	₹605 billion ($11 billion)
Developmental Financial Institutions (Indian and Global)	₹2255 billion ($41 billion)
Indian Banks	₹2640 billion ($48 billion)
Global Banks	₹1760 billion ($32 billion)

Source: cKinetics Analysis

The above capital represents only 1% of the total amount of capital available through banking and equity channels. Thus, with Finance+ investors converging behind a standardized Minimum Common Requirement (MCR) on E&S disclosure and reporting (as recommended by this current research), a wider adoption of standardized E&S measures would take place in phases and would lead to incremental capital flow.

Fig. 1-3 represents the stages of the proposed solution of "Cracking the Conundrum" and Fig. 1-4 details the resultant incremental capital flow.

Figure 1-3: Three stages of Cracking the Conundrum

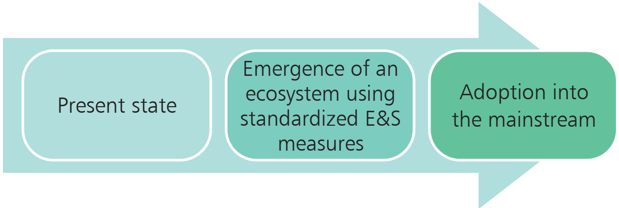
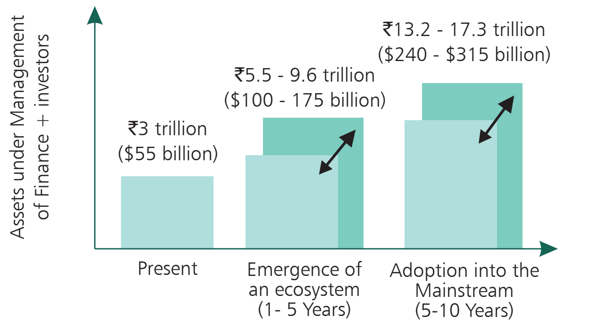


Figure 1-4: AUM increase predicted on adoption of Standardized E&S disclosure and reporting



1.6 PROJECTED PATH OF EVOLUTION OF A FUTURE INVESTOR ECOSYSTEM THAT ADOPTS STANDARDIZED E&S DISCLOSURE AND REPORTING

The present analysis reveals that standardizing E&S disclosure and reporting measures will generate near-term value for Finance+ investors and the businesses that disclose. This value would be created in the form of additional capital access and greater valuations. Fig. 1-5 depicts how the different Finance+ investor groups would interact over time:

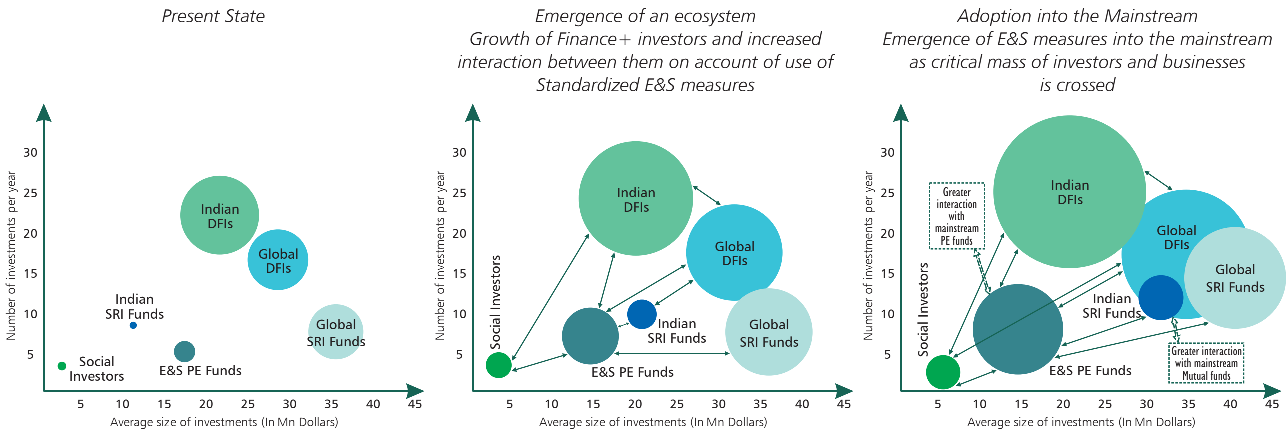
1. Present state: The present state maps the different Finance+ investor groups as they stand today- isolated islands although with similar information requirements.

2. Emergence of an ecosystem: As Finance+ investors start using standardized E&S measures, there will be increased interaction between them. Across the different Finance+ investor types, the actions in the first 5 years are expected to be in select businesses. These businesses are: (i) those dominated by the Finance+ investors, (ii) those where disclosure and reporting will lead to greater capital access.

‘Should standardization of E&S reporting be achieved, research indicates an increase in the annual capital flow from Finance+ investors to ₹2.2 trillion - ₹3.3 trillion ($40 billion - $60 billion) in 5 years and ₹4 trillion - ₹5.5 trillion ($71 billion - $100 billion) in 10 years’

3. Adoption into the mainstream: The future state has been modeled for a 10 year time horizon; where it is expected that standardized E&S disclosure and reporting will become mainstream. In this time frame, the Finance+ investing ecosystem will converge with the mainstream investing ecosystem.

Figure 1-5: Projected path of evolution of investor ecosystem



Details on the projected path and the estimated size of each of the investor types are presented in Chapter 4 of the report.

1.7 CONTINUING DEVELOPMENTS AND ROADMAP FOR POLICY MAKERS AND INVESTORS TO COORDINATE

A prescriptive set of near-term recommendations also emerged from the interviews conducted to propagate standardized E&S disclosure and reporting, which are as follows:

1. Need for an ongoing engagement platform that will enable investors to converge
2. Requirement for a guidance document on how to deploy a standardized E&S approach and how to provide assurance
3. Need to coordinate with policy and leverage existing institutional frameworks to undertake coordinated action

Given the investor lens of the report, these are also investor related or investor driven).

This space continues to see active developments. As they make their way into the mainstream, keep track of the various actions at: **www.cKinetics.com/crackingtheconundrum.**

In order to engage with some of the follow-up activities listed above, please connect with the authors of this report at cKinetics. (See back cover for details)

2. LANDSCAPE OF E&S DISCLOSURE AND REPORTING IN INDIA

The landscape of E&S disclosure and reporting in India is progressive as compared to the rest of the globe, with the investors, policy makers and other catalysts looking to drive reporting.

The business landscape of India is both evolving and converging; the intertwining impact of micro and macro-economic, social, ecological and environmental factors on business risks and resultantly, profitability has made assessment of the 'triple bottom line' more a need than a choice. Given the growth trajectory, India needs to be on, to support the burgeoning population, a significant growth in investment capital is required. At the same time, investors also need to proactively manage increased risk on account of **Environmental and Social** (E&S) exposure, and therefore, need information. These risks include resource scarcity, labor, disputes, pollution, relief and rehabilitation (R&R), etc. In this background, this section of the report outlines answers to the following questions:

1. What is the policy outlook toward standardized E&S disclosure and reporting in India?
2. How do the Indian initiatives compare vis-à-vis global initiatives in terms of impact?
3. Which are the other multi-stakeholder driven initiatives gaining traction in India?

2.1 POLICY OUTLOOK TOWARD STANDARDIZED E&S DISCLOSURE AND REPORTING

Over the past 18 months, Indian policy makers have exhibited resolute focus on driving standardization of E&S disclosure and reporting through some noteworthy initiatives.

Although governmental agencies had introduced in the past, guidelines and laws, which brought aspects of reporting on E&S issues into mainstream businesses reporting, recent initiatives have made quantum leaps in terms of (i) extent of disclosure and reporting being required and (ii) number of businesses, which have been included in its purview.

Some of the recent initiatives, driven by policy include:

1. **National Voluntary Guidelines for the Social, Environmental and Economic Responsibilities of Business** (NVG-SEE)
2. Mandate by **Securities Exchange Board of India** (SEBI) that the largest 100 companies by market capitalization provide an **Annual Business Responsibility Report** (ABRR)
3. Guidelines on Sustainable Development and Corporate Governance for **Central Public Sector Enterprises** (CPSEs)
4. Framework of Sustainability Reporting by **Institute of Chartered Accountants of India** (ICAI)

National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVG-SEE) 2011

NVG-SEE, released by the **Ministry of Corporate Affairs** (MCA) of India in July 2011[3] have been formulated to encourage adoption and mainstreaming of sustainability reporting in India.

The guidelines comprise of 9 core principles, namely:

- **Principle 1**: Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
- **Principle 2**: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle
- **Principle 3**: Businesses should promote the well-being of all employees
- **Principle 4**: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized
- **Principle 5**: Businesses should respect and promote human rights

‘Over the past 18 months, Indian policy makers have exhibited resolute focus on driving standardization of E&S disclosure and reporting through some net worthy initiatives, which have impacted both the extent of disclosure being required and number of businesses being asked to disclose’

- Principle 6: Business should respect, protect, and make efforts to restore the environment
- Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
- Principle 8: Businesses should support inclusive growth and equitable development
- Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner

Reporting process under NVG-SEE: applicable to all businesses

The guidelines are designed with an 'Apply-or-Explain' principle, wherein businesses need to either disclose or explain why they are not in a position to provide information. The guidelines are rooted in the Indian businesses ecosystem and can be adopted by businesses irrespective of size, scale or sector of operations. A special section has been included in the guidelines detailing how they can be adopted by resource constrained Micro, Small and Medium Enterprises (MSMEs), as a means to enable greater future business opportunities and remain socially relevant.

The NVG-SEE is flexible in its reporting approach in the following ways:

1) If companies are already following an accepted sustainability reporting framework then they may continue to do so and merely furnish a map of the framework used by them in their existing sustainability / business responsibility reports to the 9 core principles of NVG-SEE.

2) If businesses are not prepared to adopt the NVG-SEE in its entirety, they can continue to disclose basic information (which is also a display of commitment) while they build on their reporting capacity.

Standardization of reporting and platform

Presently it is envisaged that businesses will be required to report their Business Responsibility (BR) actions as part of their annual filings made to the MCA. This is slated to be included into the ministry portal for businesses reports; MCA 21 portal[4], where information is publicly accessible in an electronic format[5]. The idea of making this information publicly available is to create a mechanism where stakeholders and businesses are able to better communicate with each other. The MCA 21 makes companies’ reports available in a comparable format, and thus serves as an information exchange for BR reports as well.

In order to standardize the information, the MCA has introduced a reporting format: the Annual Business Responsibility Reporting (ABRR) Framework[6]; a standardized framework for Indian businesses to adopt. It captures the information required to track performance against the 9 principles of the NVG-SEE.

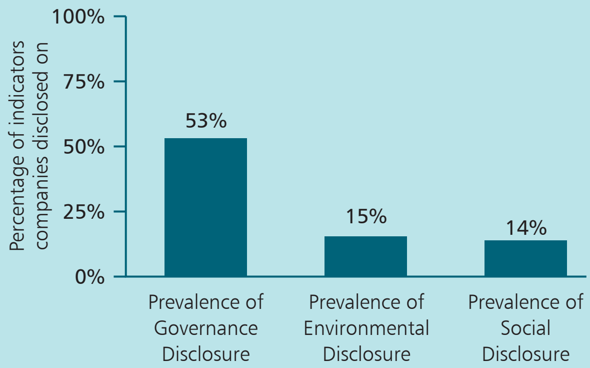
SEBI mandate for listed companies requiring an Annual Business Responsibility Report

Through its board resolution passed on November 24th, 2011, the Securities and Exchange Board of India (SEBI), has mandated listed companies to provide a BR report which would form part of their annual reports / filings. As per SEBI’s directive the BR reports should describe measures taken by companies on the key principles of the NVG-SEE. In August 2012, SEBI also prescribed a framework, akin to the one proposed by the ABRR[8], for companies to report in. The directive will initially be applicable to the top 100 companies (by market capitalization as on March 31, 2012) and remaining companies will come under its ambit in a phased manner. In order to lend flexibility to listed entities, which have been releasing sustainability reports as per other existing frameworks (voluntarily or as a part of an overseas regulation), the directive enables them to continue reporting as per their current format and merely add a map of the principles contained in the NVG to the disclosure made in their sustainability reports.

E&S information is where even the largest companies can improve on disclosure

An analysis of the disclosure and reporting levels of the top 100 listed companies by Market Capitalization for the years 2009-10, 2010-11, and 2011-12 on 35 ESG indicators and found that while disclosure on Governance Parameters averaged[7] at 53%, the average disclosure on Environmental and Social indicators stood at a dismal 15% and 14% respectively. This confirms that the information on these parameters is glaringly inadequate.

Average disclosure and reporting % on ESG Parameters for 2009-12



Guidelines on Sustainable Development and Corporate Governance for Central Public Sector Enterprises (CPSEs)

CPSEs are a sub-set of state owned enterprises in India and there are presently over 200 such organizations. They account for over 20% of India's GDP and contribute to nearly 7% of the total formal employment in the country[9]. These organizations are required to adhere to the Corporate Social Responsibility Guidelines and Guidelines on Sustainable Development[10], which were announced in 2011. Under the guidelines, a 5% mandatory weightage is awarded to sustainable development as part of their evaluation framework, laid out by the Indian government. In order to meet these goals, CPSEs are required to invest in projects pertaining to E&S sustainability and provide an annual update on the same.

The Government is also recommending that the disclosure / reporting format for these actions be standardized and is advocating the use of existing global frameworks.

ICAI framework for sustainability reporting

The **Institute of Chartered Accountants of India** (ICAI), a body set-up under the Chartered Accountants Act, 1949 is undertaking significant work to define the framework for Sustainability Reporting[11] in India, which will assuage challenges of assurances, finding a methodology for sustainability accounting and transitioning towards integrated reporting.

2.1.1 Indian policy initiatives mapped vis-à-vis global initiatives

The aforementioned initiatives, have not only significantly expanded the definition of business responsibility, but also considerably broadened the number of segments of 'corporate India' impacted. In order to measure how these initiatives compare against global initiatives on **their ability to move the needle on the level of disclosure and reporting** the impact of 20 different global initiatives (detailed in Annexures 2 and 3), belonging to both emerging markets and developed countries, was measured across the following dimensions:

a. **Revenue of businesses affected as a percentage of GDP**

   This is arrived at by measuring the cumulative revenues of the businesses impacted by the individual policy, as a percentage of the GDP of the country where the regime is applicable. This measure helps provide an indication of the extent of impact, the initiative has on the economy of a country.

b. **Percentage of businesses impacted**

   This represents the number of businesses / enterprises that fall within the policy's purview as a percentage of total operating businesses in the country. This measure helps provide an indication of the reach of the initiative.

These initiatives are also mapped as voluntary vs. mandatory and emerging markets vs. developed markets. Fig. 2-1 represents the plotting of these initiatives against the two dimensions of impact. Analysis revealed that all policies are found to be operating in a few broad 'policy zones'.

'According to the Corporate Social Responsibility Guidelines and Guidelines on Sustainable Development, CPSEs are required to engage in projects pertaining to E&S sustainability and provide an annual update on the same'

‘An impact analysis of 20 different voluntary and mandatory initiatives promoting E&S disclosure revealed that Indian policies are progressive; India’s NVG-SEE lies in the progressive voluntary policy zone and is comparable with initiatives of developed countries such as Japan and Finland’

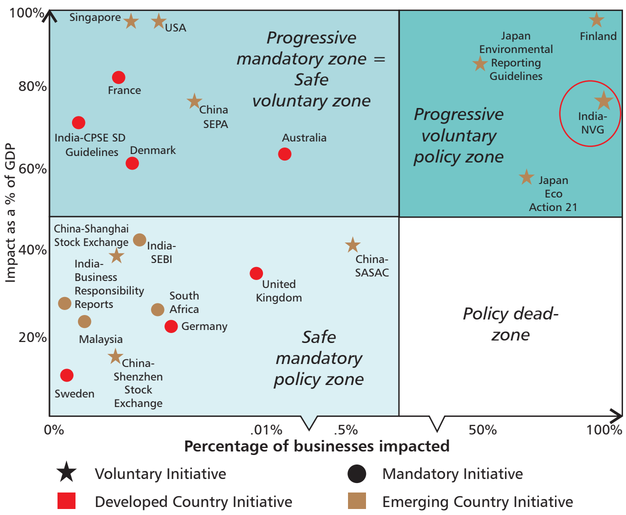
- **Safe mandatory policy region:** As expected, mandatory policies are targeted toward a small segment of businesses, but with a significant impact by the policy; as they are either high risk or provide for easier implementation by the policy makers. Voluntary initiatives in the same region are visibly over-precautionary, thereby, warranting an examination of the underlying reasons. The SEBI mandate for listed companies and the guidelines for CPSE’s, described earlier, lie in this region.

- **Progressive mandatory policy zone = Safe voluntary policy zone:** Policies in the progressive mandatory zone are those that impact sizeable parts of the GDP by impacting a relatively small number of businesses. This region also represents an area where voluntary policies and guidelines can be made safely: hence it is also being referred to as the safe voluntary zone.

- **Progressive voluntary policy zone:** A voluntary policy that impacts a large percentage of the GDP and a large number of companies lies in the ‘progressive voluntary policy zone’. As highlighted, India’s NVG-SEE lies in the progressive voluntary policy zone and compares with initiatives of developed countries such as Japan and Finland.

- **Policy dead-zone**: Policy dead-zone is the region where policy makers have little incentive to enact requirements: it impacts small segments of the GDP, even while reaching large number of businesses.

Figure 2-1: Framework for mapping ‘Progressive’ and ‘Safe’ policies



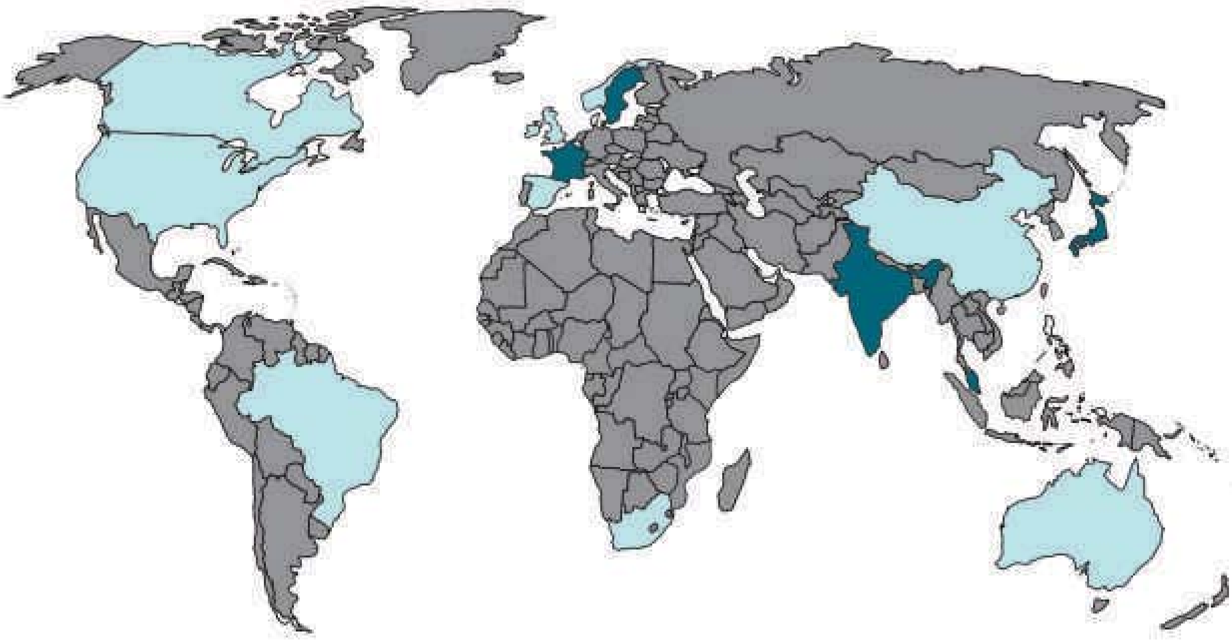
LEGEND

- Sweden: Guidelines for external reporting
- Malaysia: Malaysian Stock Exchange CR disclosure
- China: Shanghai Stock Exchange Guideline on Environmental Information Disclosure by Listed Companies
- China: Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies
- China: Shenzhen Stock Exchange Social contribution value per share
- China: State-Owned Assets Supervision and Administration Commission (SASAC) directive
- France: Nouvelles Régulations Économiques 2001
- Denmark: Law on CSR reporting
- UK: Companies Act 2006
- Finland: Finnish Accounting Standards
- Singapore: Singapore Stock Exchange Initiative sustainability policy disclosure
- India: SEBI directive on Business Responsibility reports by top 100 companies by Market Cap
- India: National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
- India: Sustainable Development Guidelines for CPSE’s
- USA: SEC filing regulation
- Germany: Corporate Governance Code
- Australia: Corporate governance guidelines
- South Africa: King Report on Corporate Governance for South Africa (King III), 2009
- Japan: Environmental Reporting Guidelines (2007)
- Japan: Eco-Action 21

An analysis of the impact created between emerging economies and developed markets revealed that amongst the emerging economies, India has most impactful and progressive disclosure and reporting laws. Some of these have overtaken several developed economies as well.

Fig. 2-2, which maps the above 20 initiatives across 15 counties highlights how the Indian policy maker is prepared to offer both carrots and sticks to businesses in order to drive up disclosure.

Figure 2-2: Comparison of Indian and global policies on disclosure and reporting



- **Voluntary and Mandatory initiatives, which have a progressive outlook**
  - Mandatory initiatives impacting a significant number of businesses (threshold – more than 50% GDP impacted)
  - Initiatives impacting all / nearly all businesses, which are voluntary in nature
- **Voluntary and Mandatory initiatives, which have a safe outlook**
  - Mandatory initiatives impacting few businesses (threshold – less than 50% GDP impacted)
  - Initiatives impacting fewer number of businesses, which are voluntary in nature

2.2 MULTI-STAKEHOLDER DRIVEN INITIATIVES ARE ALSO STARTING TO GAIN TRACTION IN INDIA

In addition to policy makers, other stakeholder driven initiatives are also starting to find increasing relevance in India, owing to both i) a targeted attempt by them to penetrate the Indian market and ii) increasing realization by businesses, especially multinational businesses of the benefits of reporting. Some of these initiatives include:

1. GRI focal point India
2. Carbon Disclosure Project (CDP) India
3. Green ratings by SMERA
4. Impact Reporting and Investment Standards (IRIS)

2.2.1 GRI focal point India

The **Global Reporting Initiative** (GRI) set up 1 of its 5 global focal points in India in 2010, via a strategic alliance with the **Deutsche Gesellschaftfür Internationale Zusammenarbeit** (GIZ). The primary goal of the GRI focal point in India is to promote and support sustainability reporting by businesses and help in capacity building to develop experts in sustainability reporting in the country. GRI is finding increasing acceptance in India – in 2009 a total of 56 companies across 12 industrial sectors produced sustainability reports out of which 35 companies referred to the GRI Guidelines. Moreover, India is identified as the country with the most comprehensive use of GRI's guidelines, in terms of level of disclosure and external assurance; 78% of GRI reports from India boast of maximum standard disclosure and external assurances, as compared to a world average of 24%[12].

'While mandatory state driven initiatives put India on the map of nations with a progressive outlook toward E&S disclosure, multi-stakeholder driven voluntary initiatives are also beginning to find traction in India'

'IRIS, a standard being adopted by investors pursuing a triple bottom line agenda, measures an organization's social, environmental, and financial performance; over 350 small and mid-sized organizations in Indian subcontinent are already reporting as per IRIS'

2.2.2 Carbon Disclosure Project (CDP) India

CDP, which represents 551 institutional investors having over $71 trillion assets under management, collects data on greenhouse gas emissions, water management and climate change strategies for over 3000 organizations. This data is used by investors and other stakeholders like policy makers, government bodies, businesses etc. In partnership with Confederation of Indian Industry – ITC Centre of Excellence for Sustainable Development (CII CESD) and World Wildlife Federation (WWF) India, CDP India has been reaching out to 200 companies in India and has seen a 55% increase in reporting from the period 2007 – 2011[13].

2.2.3 Green ratings by SMERA

SME Rating Agency of India (SMERA), which furnishes credit ratings for Indian companies in the MSME segment, has also started providing 'green ratings'[14] based on the impact of a company's production processes on the environment. Companies are required to disclose on total energy consumption, greenhouse gas emissions, industrial waste generation & effluent treatment, hazardous material management, management of air / water / noise pollution etc, which are then rated on a scale of 1 to 5, with 1 being the highest. They are backed by around 25 banks including State Bank of India, Allahabad Bank, ICICI Bank and Yes Bank amongst others[15], which are looking to increase their exposure to the SME sector.

2.2.4 Impact Reporting and Investment Standards (IRIS)

IRIS is a standard that describes an organization's social, environmental, and financial performance. While it was created as recently as 2008, it is being adopted by asset managers and investors who are pursuing a multiple-bottom-line agenda. Its 2011 data report[16], found over 350 small and mid-sized organizations in Indian subcontinent were already reporting as per the standard. India has amongst the largest communities of social and impact investors, and they form the core proponents of IRIS. Hence, one can expect to see more on the IRIS uptake in the coming years.

2.3 DEVELOPMENT FINANCIAL INSTITUTIONS (DFI) AND LENDER GUIDELINES

The Indian landscape is also being shaped by lenders and DFIs, which consider E&S parameters for their investment decision making and monitoring. They require companies to disclose detailed E&S information as per their guidelines.

Since independence, India's Financial Institutions were driven by E&S concerns.

Indian Development Finance Institutions (DFIs) played a significant role in the creation of processes to evaluate and invest in businesses based on quantified social and environmental benefits.

Even as recently as the 1990s, Social Cost Benefit Analysis was an integral part of every proposal. And then in the last 20 years they were phased out; only to witness now a possible come-back.

Multilateral DFIs (such as Asian Development Bank (ADB), International Finance Corporation (IFC), KfW, CDP, FMO etc), Indian national DFIs (such as Small Industries Development Bank of India (SIDBI), Industrial Development Bank of India (IDBI), Infrastructure Leasing & Financial Services (IL&FS), Infrastructure Development Financial Corporation (IDFC)), commercial banks (such as State Bank of India, Yes Bank etc), all have their own information requirements from investee companies, which in turn enhances sustainability disclosure from businesses that they are investing in.

Table 2-A: Names of guidelines issued by different DFIs and lenders

DFI	Name of E&S guidelines
IL&FS (India)	Environment and Social Policy Framework
IDFC (India)	Environment and Social Policy
International Finance Corporation	Performance Standards
Asian Development Bank	Operations Department Evaluation guidelines
Commonwealth Development Corporation	Investment code
KfW Bankengruppe	Sustainable Investment Approach (ESG criteria, Exclusion criteria, engagement)
Yes Bank	Sustainability Zone
FMO	Sustainability Policy

3. INVESTOR OUTLOOK TOWARD STANDARDIZATION OF E&S DISCLOSURE AND REPORTING

Given that Finance+ investors display similarities in their use of E&S information in capital deployment, there is an opportunity for them to drive adoption of standardized disclosure and reporting; this would create gains for both investors and businesses.

A growing concern amongst today's investors is that typical financial reports do not adequately capture all the risks and externalities of a firm and thus its true performance. Business valuations will differ if they reflected all ESG risks along with economic performance. The global financial crisis has made investors more wary the systemic risk, and they are slowly realizing the importance of integrating sustainability / ESG performance into their decision making criteria.

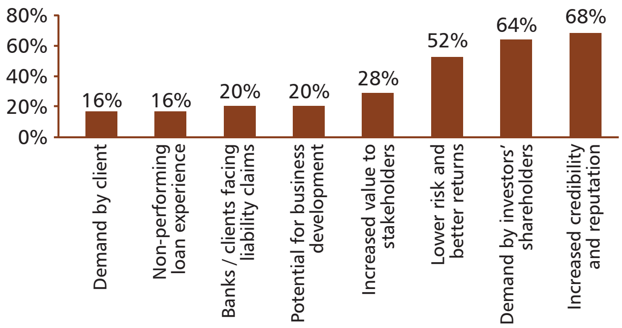
In order to elaborate the investor outlook toward E&S information, disclosure and standardization, this section answers the following questions:

1. What are the drivers for investors to integrate E&S information into decision making?
2. Which are the groups of investors looking at E&S information i.e. Finance+ investors?
3. What are the drivers for Finance+ investors to drive standardization of E&S disclosure?

3.1 REASONS FOR INVESTORS TO DRIVE E&S DISCLOSURE AND REPORTING

Integrating sustainability in the internal management by investors brings tangible benefits, and is primarily driven by factors such as reputation, operational risk assessment, new product development, regulatory compliance, investor mandate etc. There exists empirical evidence to support the claim that integrating sustainability risk (especially E&S) in decision making criteria can lead to better risk adjusted financial returns. Mercer conducted two meta-studies on financial returns for responsible investment strategies in 2007[17] and 2009 and combined results showed that 20 out of a total of 36 studies analyzed depict a positive relationship. In 2007, IFC studied the global landscape of banking institutions to examine their drivers for looking at sustainable investment strategies. The study which examined 120 investors, via a survey, found that reputation and demand from investors' shareholders were the biggest drivers (Fig. 3-1).

Figure 3-1: Drivers for investors to look at sustainable investment strategies



Source: Adapted from 'IFC, Banking on Sustainability, 2007'
(Figures in % of respondents)

In India as well, the aforementioned drivers are key to fuel investor demand for E&S tracking, disclosure and reporting. Further study of the investor sentiments also pointed to some additional drivers pertinent to investors in India, not least of them being regulations. Outlined below are 8 key drivers for investors to consider E&S metrics.

Figure 3-2: Drivers for Finance+ investors to use E&S parameters

‘Impact on reputation is one of the major drives for Investors, especially long term investors such as pension funds and institutional investors, to use E&S parameters while evaluating investments’

1. Reputation of the investor

Investors, especially long term investors such as pension funds and institutional investors are extremely cautious of the reputation of their investee companies due to the increasing costs associated with attacks on their own brand image. In the age of global media and active NGOs and civil society, investors are aware of the potential exposure of their investee companies to E&S controversies. As per survey conducted by IFC[18], 68% of the 120 participating financial institutions rated reputation as an important driver for forming sustainable investment strategies.

2. Requirement from retail investors / shareholders / limited partners

Limited Partners (LPs) influence the assessment process of General Partners (GPs) in different ways:

- Institutional investors, especially DFIs and global pension funds mandate their investment channeling agencies to make investments by incorporating E&S assessment into due diligence processes.
- Some LPs and Lenders also influence how funds are deployed in ventures that create the desired E&S impact, by creating funds and credit lines which can only be used to invest in companies related to a specific impact[19].
- Global investors, especially those that are signatories to responsible investing principles and have emerging market exposure, require their fund managers to follow their principles and practices, when making investments.

3. Regulatory compliance

Investment decisions of various investor classes in India are also determined by the applicable regulations. For example, Indian banks have to invest 40% of their Net Bank Credit (NBC)[20] in the priority sector as per **Reserve Bank of India** (RBI) regulations.

4. New product development

The E&S sustainability theme can help financial institutions develop new products, generate additional revenue streams, access new customers and diversify their portfolio risk. Banks and other lenders can identify areas of sustainable investments such as energy efficiency, renewable energy, biodiversity conservation, climate insurance and carbon finance and channel investments to them. Lenders can also bring in additional revenue by cross selling sustainability related products to their existing customers[21].

The potential for emergence of new sectors attracting both investments and innovations is highlighted by the exponential rise in the investments made in the clean tech sector, which grew by 30% between 2009 and 2010 (₹13.3 trillion or $243 billion in 2010[22]).

5. Marketing to retail investors / limited partners

In addition to considerations regarding financial returns, portfolios of a few investors are a reflection of their beliefs and values which could be related to religious views, perceptions about controversial pressure and political risks, international norms, concern for the environment, climate change etc. Investors can leverage the sustainability theme to attract other investors, having similar values. A good example of this could be the Jain investors in India who, based on their religious believes, do not invest in companies dealing in non-vegetarian items or the Islamic funds who invest in Shariah compliant companies. These are potential clients for investors / funds which consider E&S risks.

Also, large institutional investors have an incentive to reduce negative externalities associated with their investments across asset classes as they may lead to a reduction in market as well as portfolio returns in the long run. GPs can use sustainability as a marketing tool and attract such LPs.

6. Signatory to global investor initiative

Global investor initiatives such as UNPRI, Equator Principles, CERES, CDP etc. are also catalysts for driving adoption of sustainable investment strategies by varied investor classes. PRI signatories need to consider ESG issues while making investment decisions. In addition, some private equity investors are also beginning to act on these guidelines. For example, the Private Equity Growth Capital Council (PEGCC) members need to apply ESG criteria prior to investing in companies and during their period of ownership.[23]

While few India-based investors are signatories to the global principles listed above, many of the (global) investors have Indian operations and consequently (positively) influence the way they conduct business in India.

7. Investor’s own philosophy

Investors, especially those differentiating themselves as social investors, are driven by their inspiration to invest in companies which have a beneficial impact on society and environment. Thus, a driver for such investors to incorporate E&S in their decision making is their own philosophy and approach to making investments. Emerging market exposure, require their fund managers to follow their principles and practices when making investments.

Table 3-A: Drivers for integrating E&S tracking and disclosure and reporting by investors in their operations

		Reputation of the investor	Requirement from retail investors / shareholders / limited partners	Regulatory compliance	New product development	Marketing to retail investors / limited partners	Signatory to global investor initiative	Investor's own philosophy	Operational Risk
Banks	Indian	●	●	●	●			●	▲
	Global banks with presence in India	▲	▲	●	●		▲	●	▲
DFI's	Indian	▲	■		▲			■	■
	Global	■	■		▲		■	■	■
Mutual Funds	Indian	●	●		●				●
	Global MFs with physical presence in India	▲	▲		●			●	●
	Global E&S funds investing in India	■	■		■	■	▲	■	▲
	Global funds investing in India	▲	▲					●	●
Private Equity GP's	E&S seeking investors	■	■		■	■	▲	■	■
	'Social Investors'	■	■		■	■		■	■
	Rest of the PE funds	●	●						■
Pension Funds	Indian	●	●						▲
	Global Private Pension Funds	■	▲	●	●	●	●	●	▲
	Global Public Pension Funds	■	■	▲	●	●	▲	▲	▲

Source: cKinetics interviews and analysis

■ Signifies high relevance ▲ Signifies medium relevance ● Signifies low relevance

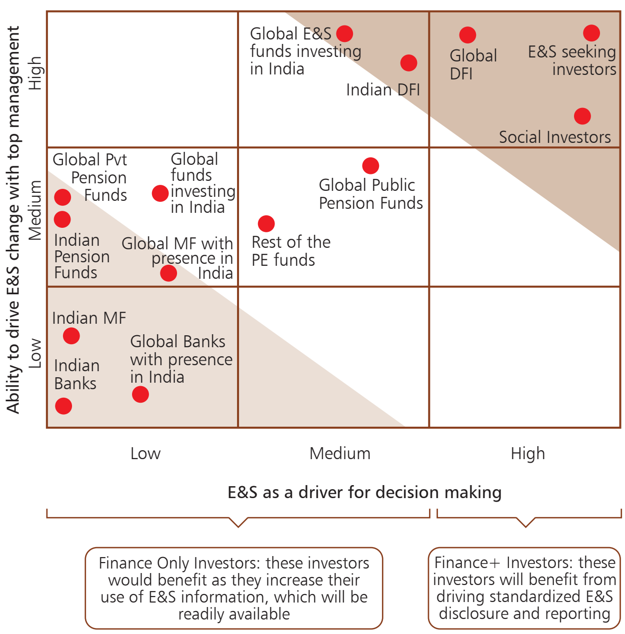
3.2 IDENTIFYING FINANCE+ INVESTORS

Investors investing in India represent different denominations. Not only do they belong to different asset classes, but also to dissimilar groups, with respect to the integration of E&S parameters in evaluating and managing their portfolio. In the existing landscape, investors can be classified into two marked groups – those mainly looking at financial and accounting statements; and those looking beyond pure financial indicators while evaluating investments. The investors in the latter category have a relatively greater integration and use of E&S impact information in their processes, and thus emerge as primary users of E&S information; for reasons ranging from mitigating risks and operational inefficiencies, to generating returns and creating positive impact.

The key differentiator, to distinguish between Finance+ investors and Finance only investors, is that the former have greater relevance of E&S as a driver for decision making and can leverage E&S information. On analyzing the investment outlook, the following areas of similarities emerge:

1. Driver: E&S information as driver for decision making
2. Leverage: Ability to drive E&S change at the top management of businesses being invested in

Figure 3-3: Identifying Finance+ investors



'The key differentiator, between Finance+ investors and 'Finance only' investors, is that the former have similar drivers and exert similar types of influence on their investments, while the latter do not'

‘Of the 14 different investor groups analyzed, the following emerged as Finance+ investors; Global E&S funds investing in India, Indian DFI’s, Global DFI’s, E&S seeking funds, and Social Investors’

The following investors were ranked high in terms of relevance of E&S information on the two parameters and have been categorized as Finance+ Investors:

1. Global E&S funds investing in India
2. Indian DFI’s
3. Global DFI’s
4. E&S seeking funds
5. Social Investors

1. Global Mutual Funds targeting India, with an E&S / SRI focus

Socially Responsible Investing (SRI) by Mutual Funds has, in the past decade, increasingly found traction in advanced markets such as Europe and North America and is slated to reach $26.5 trillion by 2015[24]. Although SRI is not mainstreamed in India, there are some global mutual funds companies, such as HSBC Asset Management, SNS Asset Management, BNP Paribas Asset Management, Impax Asset Management, which are investing in India.

This asset class in India, currently has ₹605 billion ($11 billion) in AUM. Typically, SRI funds, employ exclusion criteria or ‘ethical screens’ to weed out investments, which do not meet their philosophy. These funds also include religious funds such as Jain investors or Sharia compliant funds.

2. Indian Developmental Finance Institutions

The Reserve Bank of India has defined a DFI as “an institution promoted or assisted by Government to provide development finance to one or more sectors or sub-sectors and ensures a judicious balance as between commercial norms of operation and developmental obligations”. Traditionally, the role of these DFIs has been to provide long-term finance and assistance for activities or sectors of the economy where the risks may be higher than that the ordinary financial system is willing to bear.

Existing DFIs include the likes of IDFC, IL&FS, NABARD SIDBI etc. An estimated ₹220 billion ($4 billion) is invested by these institutions every year.

3. Global Developmental Finance Institutions

Global, DFIs have been also playing a crucial role as a catalyst in making capital available to sectors and regions, where private capital would not go. This has often resulted in creation of a market for private capital as well as meeting of the developmental goal of countries. India, has long been an area of focus for these institutions, which are currently focusing their efforts on access to finance, healthcare and education, sustainable energy etc. International Finance Corporation, Asian Development Bank, the Embassy of Switzerland (Swiss Development Corporation) are some of the Global DFIs investing into India both directly, as well as through channeling partners.

Annual capital flow by Global DFIs in India is estimated to be ₹110 Billion ($2 billion).

4. Private Equity Investors seeking E&S

Private Equity, in India, is a relatively recent and growing asset class; the total capital flow through private equity deals equaled a modest $14.8 billion[25] (₹814 billion) in 2011. Of this, a small but growing percentage of funds employed E&S criteria while evaluating investments. However, given the long holding periods of 5-7 years, all these funds use E&S information, to the extent mandated by the regulations, in order to mitigate risks. Moreover, they also have far greater engagement with the companies invested in, as compared to SRI funds. In India, the private equity managers, which use E&S information include Venture East, Actis, etc.

Their annual capital flow amounts to ₹14.8 billion ($270 million)

5. Social Investors

Impact Investing or Social Investing (investing for both social and financial returns) is a growing asset class world over, with relatively small funds as well as ticket sizes, which range from $100,000 to $5 million. The social investors includes, both global foundations and charitable trusts as well as early stage and angel private equity funds focused on impact. According to a report by the planning commission, the sectors in which these investors focus include “education, healthcare, sanitation, environment, and infrastructure”[26].

Funds include Acumen Fund, Lok Capital, Avishkaar, Grassroot Business Fund etc, which represent ₹2 billion ($37 million) of capital annually and have ₹14.3 billion ($260 million) of AUM.

6. Selected Indian and Global Banks

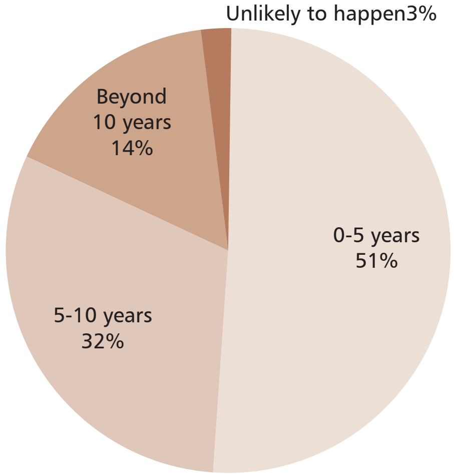
In addition to the above, certain Indian and global banks, operating as signatories to global initiatives, are also included; Public sector banks and large investors (such as pension funds) are often considered as the driving force for responsible investment and investors engaged confirmed that if E&S due diligence is to be mainstreamed, then public sector banks and pension funds need to lead the change.

3.3 CAN INVESTORS CONVERGE TO DRIVE STANDARDIZATION?

In order to determine the investor outlook and likely convergence around standardization, cKinetics asked different investors what they thought was the timeframe for standardization. An overwhelming 52% of the investors agreed that a standardized E&S disclosure and reporting framework is a near term prospective and will happen in the next 5 years. (Fig. 3-5)

Considering that Finance+ investors expect acceptance of

Figure 3-4: Finance+ investor perspective on "when would E&S disclosure and reporting become standardized"



Annexure 2 details the sample size and breakdown

standardization in the foreseeable future, it is imperative that they drive the constituents and adoption of a framework, which is aligned to their information needs and includes the indicators and elements, which are material to them. This will help ensure the following:

1. The standards, which find uptake, are harmonized with the needs of the investors
2. The impact of standardization is not diluted due to a barrage of initiatives

The proclivity of investors to drive standardization, however, is dependent upon two things,

1. Is there reason(s) for Finance+ investors, to converge and drive standardization?
2. What is the basis for Finance+ investors to converge upon?

3.3.1 Reasons for Finance+ investors to drive standardization

It is important to point out that were a regime requiring E&S disclosure and reporting in place (just like in the case of financial reporting), the case for standardization would be obvious. Agreeing on a standard and getting its acceptance is a chicken and egg conundrum: more investors will require standardized disclosure and reporting if a sufficient number of businesses already have a standardized disclosure / reporting system in place!

Hagerman and Ratcliffe describe this conundrum well by saying "improved and widespread social impact measurement will only develop to the extent that investors require it, (even as) investor interest hinges on developing a more clearly defined and measurable investment theme"[27].

In absence of an existing set of E&S standards (that have been accepted) a number of interviews were conducted with Finance+ investors to determine their near-term motivations, benefits and drivers for a standard, 'Comparability' and 'Mission Enhancement' emerged as key benefits.

3.3.1.1 Comparability

The primary benefit of standardization is comparability of data; tracking change and improvements over time.

'As per a survey, 52% of investors said that a standardized E&S disclosure and reporting framework is a near term prospective and will happen in the next 5 years; thus it is imperative that Finance+ investors converge to ensure that the framework is aligned to their needs'

‘Investors, investing in India, are in a position to converge behind a standard, given the common information requirements they have. However, the value that the convergence will have is dependent on achieving a critical mass of adoption from businesses’

Additionally, it is also a precursor to further data aggregation, analysis and benchmarking, which would lead to increased availability and maturity of supplementary services, such as ESG performance based indices, sustainable exchanges, information terminals and exchanges, and ratings and analytics; services which can catalyze the growth of SRI investing, energy efficiency, social enterprises, and environmental innovations. Comparability manifests itself as benefits in the following ways:

1. Lower cost of information collection while making investments as well as for ongoing monitoring

E&S information is used by investors at all stages of an investment process – due diligence, ongoing monitoring and at the time of exit. Readily available E&S information from investment opportunities can reduce the cost of information collection and more importantly reduce the time taken to collect the required information, thereby reducing overall decision making time.

2. Identification of larger pool of target / investible companies

Standardization will help Finance+ investors, especially those limited in their focus by their own philosophies or mandates by LPs and government to increase their pool of potential investments. By identifying large set of companies, which can differentiate themselves on E&S performance over and above financial performance, such investors would be able to ensure requisite geographical and sectoral exposure as well. Additionally, by getting their investments to report as per a standard E&S format, investors can create an investment ecosystem amongst themselves, which can ease transition from one stage to the next.

3. Develop new investment products

In order to develop new financial products related to sustainability, investors require relevant E&S data. This enables them to outline opportunities and assess the needs of the market with regards to innovative financial products.

3.3.1.2 Mission enhancement

There are certain Finance+ investors who are mandated by their own ethos or through their stakeholders to create positive E&S impact via their investments. For them promoting standardized disclosure and reporting enables them to meet their missions.

3.3.2 Basis for Finance+ Investors to converge upon

Interestingly, despite the concurrent interest of Finance+ investors and other stakeholders in E&S information, discussions revealed that they are surprisingly oblivious on the push being generated by each other.

This insight emerged through workshops, when different investors came together during this research. The discussions found that:

1. There is a common ground between investor groups, which presents them a reason to drive standardization

2. Any E&S disclosure and reporting framework, which will find the investor seal of approval, will have to solve the key challenges of information veracity and ease of availability

3. Investors, overwhelmingly, are in a position to converge behind a standard, given the common information requirements they have. However, the value that the convergence will have is dependent on achieving a critical mass of adoption from businesses

The last point raises a conundrum – investors will converge behind a standard if a significant number of companies start disclosing information as per it. On the other hand, businesses will only begin to report as per a standard, if a standard is put forth.

In the subsequent section, this conundrum is explained further and an approach to cracking it is presented.

4. CRACKING THE CONUNDRUM

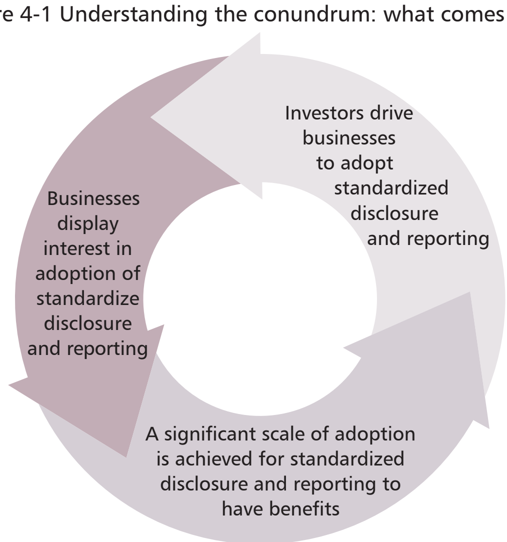
Just as financial accounting has evolved in structured and universal language, governed by rules, principles and common terms, E&S disclosure and reporting also needs to be incorporated in a standardized format, so as to increase relevance for both business and investors. However, standardization presents a conundrum: a standard will get accepted only if it has a large number of adopters and adoption will only happen if a standard gets accepted.

4.1 UNDERSTANDING THE CONUNDRUM

The value derived by investors from standardization of E&S disclosure and reporting is centered on the number of businesses adopting the framework. Hence, the question 'can investors targeting India converge to drive to standardized E&S disclosure and reporting' also transforms into a circular one - investors can converge if a significant number of businesses report as per the format. On the other hand, businesses would only start disclosing only when investor interventions drive them to it.

Fig. 4-1 represents the conundrum; with the actions of both investors and businesses predicated on each other, and the question is "what comes first – investors converging or businesses reporting"?

Figure 4-1 Understanding the conundrum: what comes first?



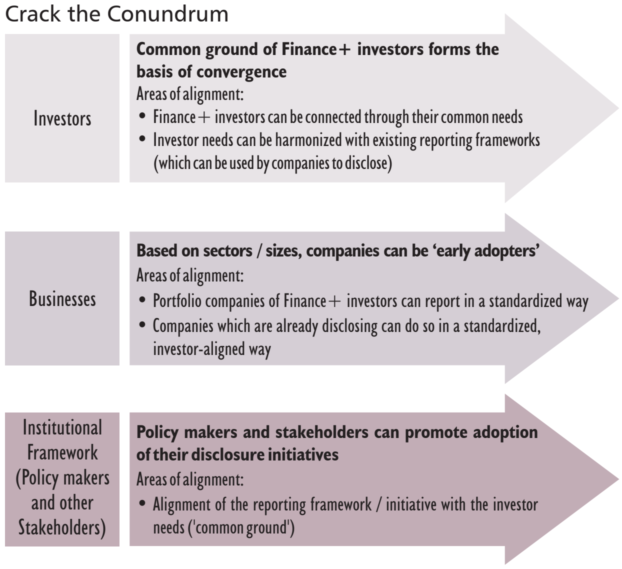
4.1.1 Role of different stakeholders in Cracking the Conundrum

Despite the boost that E&S disclosure and reporting is receiving from all stakeholders, the different initiatives are creating isolated impacts. Most mandatory policies target just a limited number of businesses: which are either listed or government owned. Private, small and medium enterprises, which constitute the portfolio of most Finance+ investors, are governed by voluntary initiatives. While businesses lack the incentive to voluntarily comply with them, till it leads to a measurable benefits (capital inflow / revenue), policy makers lack the incentive to mandate (and govern) them.

Tellingly, even markets considered advanced in identifying and dealing with sustainability concerns are ranked poor in terms of standardization. Recent comments by the Eurosif highlight that even in a developed market like Europe, the current regime for disclosure / reporting of non-financial information is categorized as "poor"[28]. The key to Cracking the Conundrum (henceforth referred to CTC) lies in identifying and communicating, to the different stakeholders, i.e, businesses, investors, and policy makers, the value proposition of increased and standardized E&S disclosure and reporting.

Fig. 4-2 outlines the parallel actions needed for CTC, which will be explained in detailed in Chapter 6.

Figure 4-2: How different stakeholders can be aligned to Crack the Conundrum



'The core to creating the efficiencies and unlocking the value is to create a link of E&S indicators and measures, which are presently commonly used across the Finance+ investor groups, and connect the investors in a unified ecosystem'

4.2 FINANCE+ INVESTORS HOLD THE KEY TO CRACK THE CONUNDRUM IN INDIA

As outlined in the earlier chapter, India has recently introduced progressive policies for promoting standardized disclosure and reporting. This progressive outlook by the policy makers and other institutions presents an ideal opportunity for investors, especially Finance+ investors, to drive standardization.

As part of the current research, cKinetics found that ₹1trillion ($18 billion) is presently being deployed annually, using E&S measures. These investments are being made across 5 different investment groups:

1. Development Finance Institutions: Indian as well as global
2. Global E&S funds with asset allocation towards India and investing mainly in public equities
3. Private equity asset managers that use E&S as part of their processes and invest in both private and public equities
4. Social investors that invest in early stage unlisted companies
5. Banks with Responsible Finance initiatives (either because they are signatories to global principles or have formulated their own principles)

While on the surface the above investor groups appear disparate, a closer examination of the due diligence and monitoring processes reveal similar information requirements (which are elaborated upon in Chapter 5).

This presents an opportunity for collaboration where Finance+ investors can emerge as a group with similar information and data interests. This group of investors, if brought together, would hold the key to cracking the conundrum.

4.2.1 Connecting the Finance+ investors to Crack the Conundrum

The existing landscape of Finance+ investors resembles a 'connect the dots' game where different investors have their own E&S data formats. They operate in an isolated manner, using their own proprietary measures and information gathering frameworks for due diligence or ongoing monitoring.

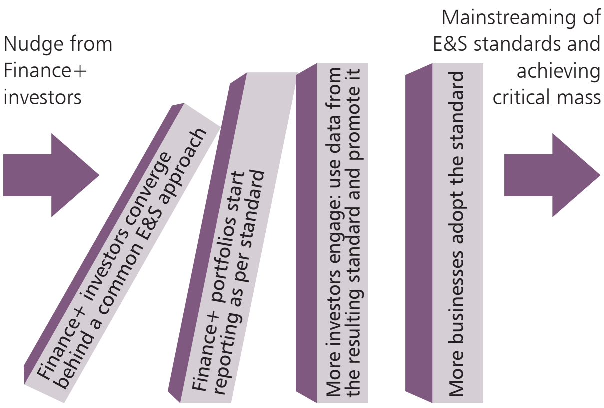
While obvious, it is important to state that the same investor groups and businesses operate in an interconnected and interdependent ecosystem. This is evident form the use of a standardized accounting system, which operates with efficiency in a relatively seamless manner. Thus, having standardized E&S disclosure and reporting measures will create systemic efficiencies - both for investors and businesses.

The core to creating the efficiencies and unlocking the value is for the Finance+ investors to be connected and converge behind a common E&S disclosure and reporting framework. In other words, a link of E&S indicators and measures which are commonly used across the Finance+ investor groups (from small social funds to banks) can be created to connect investors in a unified ecosystem.

As businesses start to disclose and join the ecosystem, they would experience the benefits of: lower reporting cost, easier access to capital and higher valuations.

(It should be clarified here that the approach being suggested does not require creating a new disclosure / reporting format, but required identifying the 'common ground' that investors can converge behind. Businesses can provide this 'common information' as per existing formats in annual or sustainability reports. Implementing this approach using a guidance document as well as leveraging existing institutional frameworks is detailed in Chapter 8.

Figure 4-3: Finance+ investors can lead a domino effect of driving adoption of standardized E&S measures



4.2.2 Visualizing the future ecosystem

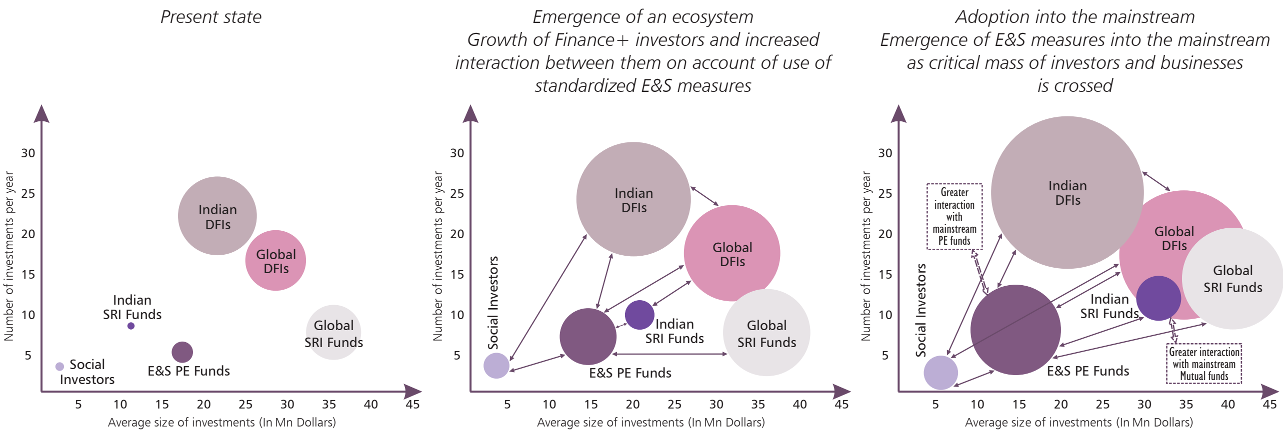
The present analysis reveals that standardizing E&S disclosure and reporting measures will generate near-term value for Finance+ investors and the buisneseses that disclose. This value would be created in the form of additional capital access and greater valuations.

Starting with today's Finance+ investors, convergence around a single E&S disclosure and reporting standard will lead to a virtuous cycle that is likely to (a) increase the amount of capital being managed by the Finance+ investors and (b) increase the number of investors that are using E&S measures.

Fig. 4-4 depicts the path to cracking the conundrum by connecting Finance+ investor groups, through the following stages:

1. Present state: The present state maps the 5 different investor groups as they stand today- isolated islands with similar information requirements.
2. Emergence of an ecosystem: As Finance+ investors start using standardized E&S measures, there will be increased interaction between them. The action in the first 5 years is expected to be in select businesses. These businesses are (a) those dominated by Finance+ investors, (b) those where disclosure and reporting will lead to greater capital access. (Detailed analysis and methodology on quantifying capital flows are described in Chapter 7 and Annexure 5).
3. Adoption into the mainstream: The future state has been modeled for a 10 year time horizon; where it is expected that standardized E&S reporting will become mainstream. In this timeframe, the Finance+ investing ecosystem will converge with the mainstream investing ecosystem.

Figure 4-4: Projected path of evolution of investor ecosystem



Present state	Emergence of an ecosystem	Adoption into the mainstream
Harmonization of metrics used across investor categories	Harmonization of metrics used across investor categories	Harmonization of metrics used across investor categories
Linking businesses invested in by Finance+ investors to create greater deal flow	Linking businesses invested in by Finance+ investors to create greater deal flow	Linking businesses invested in by Finance+ investors to create greater deal flow
Absence of 'entry barriers' for more Finance+ capital	Absence of 'entry barriers' for more Finance+ capital	Absence of 'entry barriers' for more Finance+ capital
Alignment of investor needs with other stakeholders such as state and non-state bodies driving disclosure	Alignment of investor needs with other stakeholders such as state and non-state bodies driving disclosure	Alignment of investor needs with other stakeholders such as state and non-state bodies driving disclosure

'The present analysis reveals that standardizing E&S disclosure and reporting measures will generate near-term value for Finance+ investors and the businesses that disclose. This value would be created in the form of additional capital access and greater valuations'

‘As certain sectors become a party to a common disclosure and reporting approach, they would be in a position to benefit from this capital flow; these are Business and Consumer Services, Energy and related infrastructure and Industrial, manufacturing and extractive industries’

4.2.3 Connecting the investor groups will lead to additional capital flow

As Finance+ investors get connected, in their need and use of E&S information, not only will it lead to ease of capital deployment for them, but also attract more Finance+ capital into India. The reason for this is that Finance+ capital, currently being invested in India, is only 1% of the total available capital and stands to grow with increased transparency in Indian businesses.

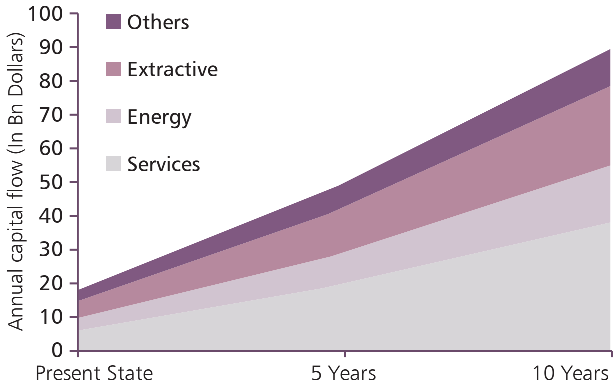
As certain businesses and sectors become a party to a common disclosure and reporting approach, they would be in a position to benefit from this capital flow.

This link between capital flow and disclosure and reporting is explored in Chapter 7, where the relationship is examined for the following sectors:

1. Business and consumer services including communication, healthcare, education, and retail
2. Energy and related infrastructure
3. Industrial, manufacturing and extractive industries

Fig. 4-5 depicts how the quantum of capital available in these three areas will grow as the CTC solution finds ground.

Figure 4-5: Increase in capital flow due to Cracking the Conundrum and convergence around standardized E&S disclosure



As one looks at a potential increase in capital flow, the question which emerges is how can groups of investors be connected to achieve the desired end state? The answer to this lies in the commonalities in E&S needs of investors in terms of (i) the processes employed, (ii) the nature of data requirements and (iii) challenges faced.

These will form the basis of establishing the bridge between investor groups and presenting an opportunity to them to collaborate on standardization.

The next chapter explores the commonalities and how they can be leveraged by Finance+ investors.

5. IDENTIFYING THE COMMON GROUND BETWEEN INVESTORS AND GAPS TO BE ADDRESSED

Investment making process of Finance+ investors contains many common elements; from screening, to due diligence to post investment monitoring. These common elements are found, both in their information requirements as well as in the way they use the information. Moreover, they also are faced with similar challenges, while making / evaluating investments. These commonalities form the basis of Cracking the Conundrum, provided certain barriers are addressed.

As outlined in the previous chapter, Finance+ investors hold the key to CTC. In order to understand their perspective with regards to how, and to what extent they use E&S information and the challenges they face, over 80 investors were interviewed. In addition, we also ran a survey to understand the nature of their use of E&S information, their due diligence processes and their data requirements.

In this chapter we outline:

i. Common due diligence and investment monitoring strategies of Finance+ investors

ii. Common challenges faced by investors while making investment

iii. Barriers that need to be addressed in order to exploit the commonalities

5.1 COMMON DUE DILIGENCE & INVESTMENT MONITORING STRATEGIES OF FINANCE+ INVESTORS

Although the investment strategies vary from rudimentary checklists to quantifying the financial implications of E&S factors, several commonalities were observed in investment screening, due diligence and monitoring:

5.1.1 Commonalities in investment screening

Investment screening is the first step that an investor undertakes to determine whether time should be spent in carrying out detailed due diligence of investment opportunities. The screening usually happens in two sub-steps: (a) applying a negative / positive screen, and (b) using an E&S evaluation framework. Investment screening is designed to happen quickly so that an investor can determine where to devote more time and effort. However, due to challenges in E&S information availability, applying an E&S evaluation framework usually takes time.

- Applying a negative / positive screen

All Finance+ investors have determined positive and negative screens which prescribe the industries / sectors they would and would not invest in, respectively. These enable their process of initial screening and shortlisting, and are developed in accordance with either their investment philosophy or as per the requirements of their stakeholders.

- Using an E&S evaluation framework

A recurrent practice, which a variety of Finance+ investors employ in order to evaluate a company's E&S performance and risks in relation to its sector of operations, is the use of a standard framework. More often than not, the framework takes the form of a checklist that is used by the assessing teams. These checklists are used to classify / grade potential investments based on their existing or potential E&S risk. The resultant grade (such as A,B,C or high risk, medium risk and low risk) is used to determine the extent of due diligence and post investment monitoring required. In reviewing the checklists across the different kinds of Finance+ investors, several common aspects emerged, where potential for standardization exists.

If these evaluation frameworks were to be harmonized and businesses made aware of them, such information can be made easily and readily available at the time of screening. This, in turn, would allow for investors to evaluate more opportunities and lower the time it takes to screen an investment opportunity.

5.1.2 Commonalities in due diligence for new investments

If an investment opportunity clears the investment screen, then the investor undertakes detailed due diligence to determine whether the investment should be made or not. From an E&S standpoint, the following checks are performed and opportunities for standardization exist here:

‘Finance+ investors have commonalities in their due diligence and investment monitoring strategies and the challenges faced while making investments’

- Regulatory Check: Compliance with laws of the land

Predictably, all investors check if their investments comply with the laws of the land, as applicable to the portfolio companies, as well as to themselves. Two noteworthy observations emerged from the research. The first was that the time and effort taken to evaluate basic compliance was disproportionately higher in small organizations. This prevented investors, especially lenders, from evaluating more investments in MSMEs. Thus, an opportunity exists for Finance+ investors in MSMEs to adopt a standard compliance reporting framework and / or to establish a registry where such information can easily be accessed. Moreover, investors can also collaborate with policy makers to increase transparency in the system.

Another noteworthy observation was that globally E&S laws are evolving and what is a law in one part of the world may soon be adopted and enforced in another. Thus, long term investors are not only looking to verify if the investee companies comply with existing national regulations, but also verify how divergent are they from existing international regulations.

- Classification of companies

It's a common practice amongst investors to evaluate the ‘E&S’ profile of companies and assign ratings to them (such as high risk / impact, medium risk / impact, low risk / impact). The aforementioned checklists are often used to determine this score, which is a reflection of the ‘invest-ibility’ of the company, cost of capital and level of monitoring required. Standardization on the classification would allow investors to lower the time taken to evaluate an opportunity and also enable them to compare investment opportunities across a wider universe. Akin to how credit ratings can be used across stakeholders, these classifications would also assume a broadly accepted definition and role. At the same time, standardization of the classification will also help companies better equip themselves on areas they need to work on, in order to tap capital at favorable terms.

- Quantitative evaluation of E&S data

Many investors pointed out that they were looking for quantifiable, and by extension comparable and benchmark-able data, instead of, to quote verbatim “story telling”. Certain investors such as long term lenders (banks), social investors, and DFIs also go beyond the company's boundaries to evaluate supplier / supply chain data as well.

Different tools are used by investors in collecting and recording information, including questionnaires being sent to the company, site visits by E&S officers, implementation of Safety and Environmental Management Systems (SEMS) etc.

5.1.3 Post investment monitoring

After an investment is made, Finance+ investors continue to seek E&S information from their portfolio. There is lesser homogeneity in the way investors perform ongoing monitoring of their investments; however a few salient commonalities exist:

- Periodic E&S performance / compliance review

In the case of long term Finance+ equity investors, (i.e. private equity, DFIs and social investors), the standard reports required from the portfolio companies, as a part of the investment covenants contain E&S information. These investors have shown an enhanced valuation of their portfolio and reduction in risk by getting their portfolio companies to adopt E&S reporting practices.

SRI funds and banks, on the other hand, were more focused on requiring ongoing information related to compliance and supply-chain risks, especially in sectors such as infrastructure, mining and power.

- Periodic site visits by E&S officers

The practice of sending E&S officers for periodic (usually once every year) visits to the premises of the portfolio companies for audit and data verification was found to be more common amongst DFIs, private equity and social investors. This raises an interesting question; will standardization of data collection processes / systems help make this process more efficient and possibly bring in more investors that cannot afford E&S officers?

Table 5-A summarizes the common elements in the due diligence processes of different Finance+ investors.

Table 5 A: Commonalities in screening, due diligence and ongoing monitoring

Investment Stage	Information requirements and actions	Applicability	Commonality in requirements
Screening	Establishing negative and positive screens, with respect to sectors and geographies that should / should not be invested in	All Finance+ investors	• Compliance information • Commitment of investees' management & integration of E&S issues
	Detailed checklists, to evaluate the presence / absence of certain 'hygiene criteria'	E&S seeking Private Equity Investors, Social Funds, Indian and Global DFIs, Banks	
Due-diligence and Evaluation	Evaluating compliance with regulations, both national and international	All Finance+ investors	• Due diligence on compliance • Resource management data • Supply chain stability and feedstock reliability • Measurement of impact on stakeholders • Market opportunity on account of E&S performance
	Classifying companies based on sustainability (E&S) scores, which helps identify the risk and the level of ongoing monitoring	E&S seeking Private Equity Investors, Social Funds, Indian and Global DFIs, Banks	
	Constructing E&S P&L / performing impact assessment through on ground data collection (through visits / questionnaires, SEMS)	E&S seeking Private Equity Investors, Indian and Global DFIs, Banks	
Post Investment Monitoring	Working with the companies to improve E&S performance	E&S seeking Private Equity Investors, Indian and Global DFIs, Social Funds	Ongoing data on : • Compliance • Commitment, integration and accountability • Supply chain stability and feedstock reliability • Measurement of impact on stakeholders • Resource management data • Need for investees to have a SEMS
	Receiving and reviewing E&S performance / compliance periodically	E&S seeking Private Equity Investors, Indian and Global DFIs, Social Funds	
	Evaluation against E&S covenants to decide future of investments	Social Funds, Indian and Global DFIs, Banks	
	Periodic site visits by E&S officers	E&S seeking Private Equity Investors, Social Funds, Indian and Global DFIs, Banks	

'Common information requirements of investors include data on an investee's compliance with the laws of the land, commitment to E&S sustainability, supply chain reliability, resource consumption and management etc.'

‘As per the investor survey conducted, the biggest challenges faced are absence of a centralized broker for E&S information, lack of credibility of data and availability of unconsolidated or scattered information’

5.2 CHALLENGES FACED BY FINANCE+ INVESTORS

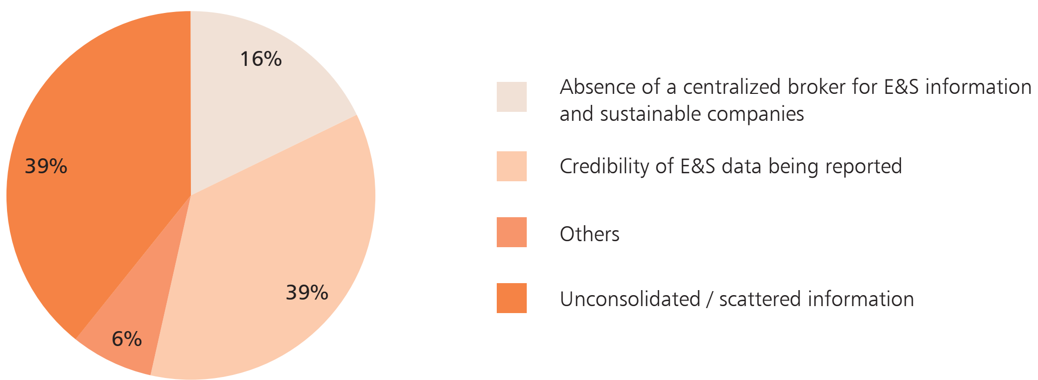
The interviews also revealed the challenges faced by investors, while investing in India, particularly with respect to data collection. These revolve around the lack of credible information and have been highlighted in Table 5-B.

Table 5-B: Challenges faced by Finance+ investors in India

Challenge Area	Current Scenario	Investor Perspective
Unconsolidated / scattered information	Lack of company ESG disclosure / reporting has been recognized as the key challenge to investing in emerging markets. Moreover, information, which is available, is inconsistent and vague and therefore not aligned to investor needs.	The investors, engaged with this study, helped throw light on why the disclosure is at dismal levels; the reasons cited were lack of awareness coupled with absence of systems in place for accurate measurement of relevant indicators.
Credibility of E&S information being reported	The credibility of ESG reporting is not only linked to the systems put in place to measure the same, but also to how integrated sustainability reporting is to companies’ operations; i.e. the involvement of management and stakeholders in identifying risks and governing performances. There is, currently limited communication between businesses, investors and other stakeholders.	Credibility of information needs to be ensured through audits and increased dialogue; investors, looking to play the role of an effective ‘consciences keeper’, need to be enabled by effective two way communication process. While this is already happening in many developed nations, developing nations are still slower on the uptake.
Absence of a centralized broker for E&S information and sustainable companies	Finance+ investors, especially those not domiciled in India, face issues while determining how, and to what extent, do businesses understand & eliminate their ESG risks. While institutional investors do have access to reporting of listed companies, the direct investors may get impacted from the lack / perceived lack of access to ESG information.	Investors corroborated that there is a lack of platform for ESG reporting for private companies. This challenge can be dealt with, if there exists a medium, such ESG research companies, allowing companies to share their data in a standardized format

In the investor survey conducted, the magnitude of these challenges was revealed; non - credibility of information emerged as the biggest challenge. (see: Fig. 5-1) Thus, these are also indicative of the propensity of Finance+ investors to converge.

Figure 5-1: Challenges faced by Finance+ investors in India



5.3 BARRIERS TO BE ADDRESSED IN ORDER TO EXPLOIT THE E&S INFORMATION COMMONALITIES

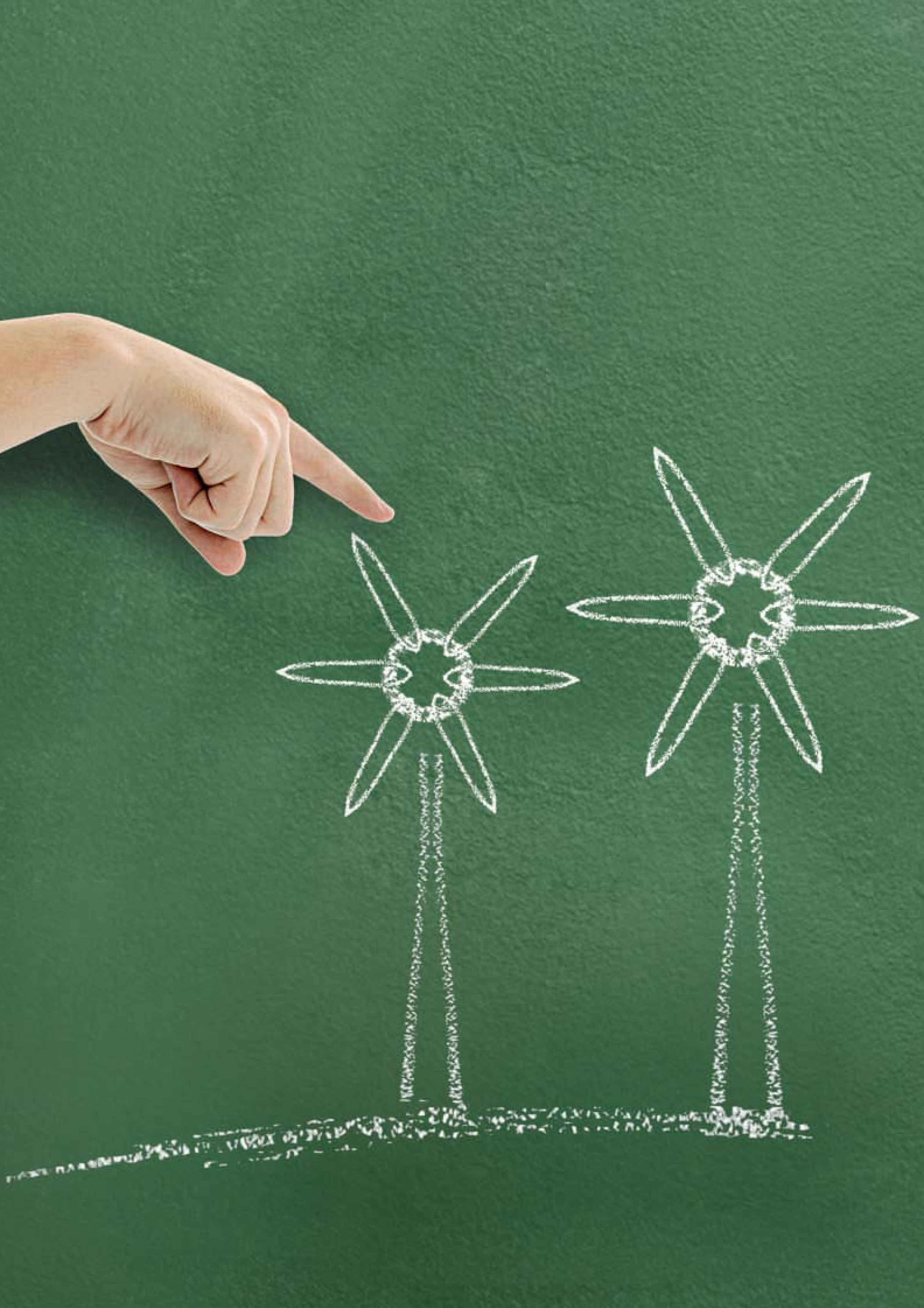
In the absence of an accepted standardized disclosure framework, most of the E&S data needed (ref: Table 5-A) is intermittently reported through annual reports, websites, sustainability reports, other marketing material etc.

While, some investors limit their (initial) screening to the public data, most solicit private disclosure for investment analysis. More than 90% of the investors interviewed confirmed that their internal processes require them to look beyond public data and demand additional information. The inefficiencies in this process of private data collection and the challenges it presents (Table 5-C) need to be simultaneously addressed, in order to exploit commonalities between investors.

Table 5-C: E&S information barriers from an investor perspective

Challenge Area	Current Scenario	Investor Perspective	Information barriers to be addressed
Commitment, integration of E&S	Given the low uptake that sustainability reporting has had in India, it is difficult to measure the extent to which businesses have integrated sustainability.	As sustainability and E&S reporting is not widespread, investors require that businesses disclose an ongoing / long term to commitment integrating sustainability in operations. This is often viewed as proxy to management quality.	A standardized framework must include indicators which measure the commitment / involvement of the top management toward sustainability. For e.g. does the company have well defined and communicated policy on material E&S issues.
Compliance	India has a strong environment policy and legislative framework and well-established institutions at the national and state level. These laws, coupled with increase in foreign investment, is creating pressure on businesses to comply with national and international E&S regulations.	All investors agree that a confirmation of ongoing compliance with existing laws, and continuous monitoring of the same, is a sufficient proxy to environmental disclosure and reporting.	It is important for a reporting framework to measure instances of non - compliance with the laws of the land. For e.g. Amount of fines paid in the year on account on non - compliance.
Supply chain sustainability	Businesses increasingly need to take care of both forward and backward supply chains, as both input materials and end products may have a positive economic value or negative environmental or social value attached to it.	In order to ascertain the reliability of the feedstock, and preparedness of supply chain for the E&S risks, some Finance+ investors require information pertaining to supply chain sustainability.	Supply chain data is only material to certain industries and only businesses of a certain size, can provide this data. Thus, reporting frameworks need to lend businesses the flexibility on whether or not they can provide this information, as also the extent to which data can be provided.
Resource management	Business profitability depends, to a large extent, on efficient processes, which reduce reliance on increasingly scarce natural resources. This is the reason why efficient resource management is being mainstreamed in to functions of an enterprise.	Finance+ investors are interested in how the businesses compare to peers, with respect to resource consumption and use of technology in resource optimization. This is especially true in sectors with high E&S risks, or sectors with high reliance on non renewable or scarce resources.	Reporting framework should ensure that businesses report on the resource consumption in a comparable format (e.g. per unit of output) to establish materiality and comparability. The scope of measurements should also be standardized or transparent.
Standardized data from MIS	SEMS help businesses measure their E&S impact, set goals, and furnish reports. This, however, has limited uptake in India. A research by cKinetics, on ESG disclosure of top 100 listed companies by market capitalization found that the average quantitative disclosure was less than 50%. i.e. even amongst the leading businesses, the prevalence of measurement is very low.	Finance+ investors agreed that SEMS should be used by companies: these systems for data measurement, not only helps investors in gauging the level of commitment of a company, but also on data validity.	Reporting framework should ensure that data is reported in standardized units and that businesses disclose that elements of SEMS that they have established in their operations

The commonalities of Finance+ investors summarized in this chapter outweigh the barriers listed. The next chapter outlines how some of the barriers can be addressed; and the actions that need to be undertaken to build upon the commonalities identified.

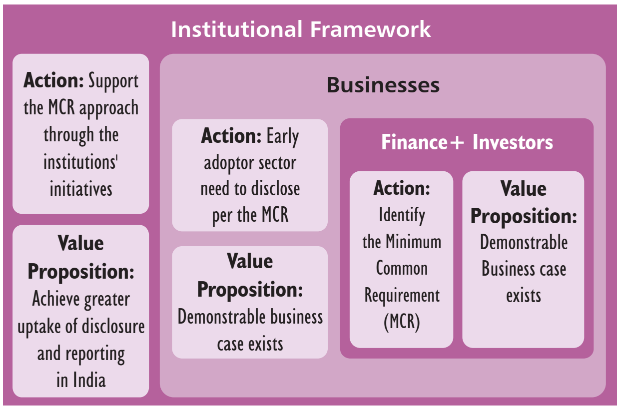


6. ACTION AND COORDINATION NEEDED TO CRACK THE CONUNDRUM

After Finance+ investors take the lead, it will require coordinated action along with businesses and existing institutions to drive widespread adoption of standardized E&S disclosure and reporting. Creating and communicating a Minimum Common Requirement (MCR) will enable all stakeholders to converge behind a common goal. Moreover, voluntary adoption of a standardized framework, in the absence of a mandatory framework, will depend on the benefits derived by the different stakeholders. The approach to cracking the conundrum lies in the identification of these benefits and the barriers that need to be overcome.

As mentioned in Chapter 5, Finance+ investors form a starting point that can break the circular reference and start the adoption of standardized E&S disclosure and reporting. They can do so by identifying the 'common ground' of their E&S information needs (refer Chapter 5). However, for the approach to gain wider adoption requires actions from businesses and other institutions (policy makers and catalyst organizations such as GRI, ICAI, IRIS). This chapter outlines what the 'common ground' between Finance+ investors can look like and the value proposition for businesses and existing institutions to adopt and support the MCR approach. Fig. 6-1 provides an overview of the actions required, as also presents the reason 'why should they be acted upon'.

Figure 6-1: Actions required by stakeholders to Crack the Conundrum



6.1 FINANCE+ INVESTORS NEED TO CONVERGE BEHIND A MINIMUM COMMON REQUIREMENT (MCR)

Action: Finance+ investors have an opportunity to determine the overlaps in the information required by them and identify common indicators, which meets the needs of a DFI as much as an impact investor; in other words, leverage their E&S information commonalities and define the 'Minimum Common Requirement' (MCR) of information needs. It's important to note that the MCR also needs to be formulated in a way that it allows flexibility to businesses to report on it.

Value proposition: The business case for investors to propagate the MCR is centered on increasing their profitability of and mitigating E&S risks.

6.1.1 Constructing the Minimum Common Requirement (MCR)

The MCR is meant to capture the common set of indicators and measures that Finance+ investors can agree to have, bare minimum disclosure from their investments. Having an MCR would allow for the following key benefits:

1. Establishing a common set of expectations across investor types as well as across reporting companies
2. Ensuring comparability, by being able to draw inferences from MCR data of reporting entities, across industries as well as over time periods
3. Enabling a framework on top of which sector-specific data can be asked (see 6.1.2)

In order to construct the MCR, an investor survey was carried out, followed by a series of consultations. These helped confirm that the commonalities amongst investors extend to a specific set of elements and the indicators, on which they need information.

The areas where common information was being sought (in decreasing order of priority) were:

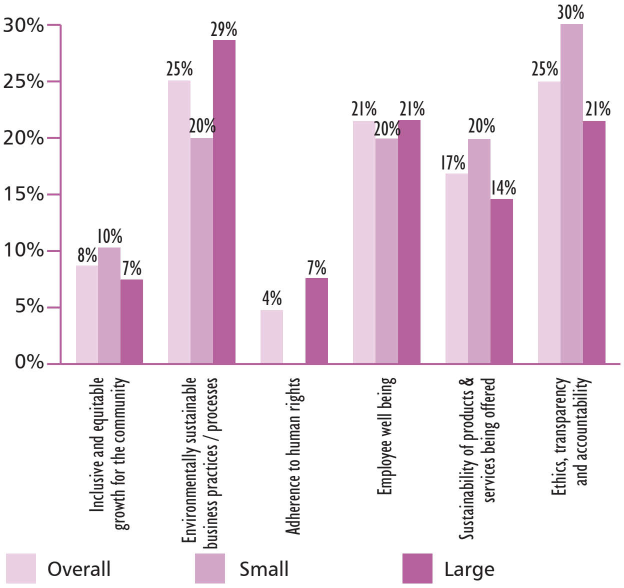
- Ethics, transparency and accountability
- Environmentally sustainable business practices / processes
- Employee well being
- Sustainability of products and services being offered
- Inclusive and equitable growth for the community
- Adherence to human rights

(These have been adapted from the principles of NVG-SEE)

'In order to construct an MCR, a survey was conducted, followed by a series of consultations. Interestingly, the common elements emerged across investors in small companies and investors in large businesses, despite the effect that investment size has on the materiality of information'

Fig. 6-2 depicts the different E&S elements and how they are viewed by investors.

Figure 6-2: Common elements in investor needs



Interestingly, the elements under which E&S information is needed, is also common across investors in small companies and investors in large businesses, despite the effect that investment size has on the materiality of information. However, what differs, between large and small investors, is the depth of information needed; for which there exist a plethora of indicators to choose from, both form Indian & global reporting frameworks.

Given that the Indian policy makers have recently introduced the NVG - SEE and the ABRR (ref. Chapter 2), the report has sought to align them with the other existing standards in use by investors: namely GRI and IRIS. (Appendix 6 reflects the mapping of NVG - SEE to the global standards, namely GRI and IRIS and details the different metrics which can be used for disclosure and reporting).

6.1.2 Suggestive outline for an MCR

In order to describe the form that the MCR can take, investors with a range of AUMs were consulted. Table 6-A summarizes a few standardized indicators, which emerged in areas which Finance+ investors felt as being top priority for them, namely (a) Ethics, transparency and accountability; and (b) Environmentally sustainable business practices / processes.

Table 6 A: Common questions and indicators across which investors need information

Elements for standardization	Perspective of investors in Large Businesses	Perspective of investors in Small Businesses	Standardized questions and indicators (as revealed from investor consultations)
Ethics, transparency and accountability	Ethics transparency and accountability are central to the governance of an organization and have long been an integral measure for large investors. Although, it is presently used in a binary manner, large investors are making the transition toward using this to subjectively evaluate management quality as well. Indicators, such as those presented here, are useful to gauge the gaps that exist in organizational policies promoting ethical and transparent behavior and their implementation and allow investors to work with organizations to make improvements.	Investors in small businesses revealed that this is the most important element for them, given the size of the businesses they invest in. This is also due to the fact that small businesses are not prepared to furnish detailed disclosure / reporting and compliance with the laws of the land is also opaque. Moreover Social investors use the information as an indicator to the 'potential of impact' of a business.	Indicate whether the organization has a written code of ethics that has been communicated to employees. Indicate whether the organization has been found to be out of compliance with any local labor, tax, or environmental regulations during the reporting period. Number of independent members of the organization's Board of Directors or governing body, as of the end of the reporting period. Indicate the amount of fines (including late fees) the organization has paid related to compliance with any local labor, tax, or environmental regulations during the reporting period. Indicate whether the organization has a written policy to monitor and disclose any potential conflicts of interest between the company, board members, owners, or material investors.

Elements for standardization	Perspective of investors in large businesses	Perspective of investors in Small Businesses	Standardized questions and indicators (as revealed from investor consultations)
Environmentally Sustainable Business Practices and processes	Environmental and social constraints have found their way from merely existing in compliances and 'social license to operate' to a source of risk for small and large organizations. From resource scarcity to feedstock reliability to impact on community, these issues significantly impact the financial sustainability of businesses and investors are no longer content with qualitative and general data, but looking for quantifiable, benchmark-able metrics.	Small Finance+ investors require disclosure on environmental sustainability, in order to capture non-financial impact which can create awareness in the ecosystem and attract more capital.	Components of the organization's environmental management system. Total water consumed and the percentage of water that is recycled and reused. Material consumption and energy consumption per unit of product. Statement on quantum of emissions of greenhouse gases and efforts made to reduce the same. Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.

6.1.3 Sector disclosure and reporting in addition to MCR

In addition to the MCR, that is sector agnostic, Finance+ investors have also indicated the need for sector specific reporting requirements. While the MCR would form the basis of common reporting; the sector specific reporting elements would be material to a particular sector.

Several sectoral disclosure and reporting frameworks that capture E&S impact already exist for sectors such as Oil and Gas, Food processing, Textiles, Mining etc.

The interviews revealed that the present sector disclosure and reporting frameworks were very diverse with regards to the nature of information they require. At the same time, no sector framework for E&S disclosure / reporting has had wide-spread acceptance.

Hence an opportunity exists to promote them further; possibly in conjunction with the MCR. This would require coordination with the existing institutions as outlined earlier.

6.1.4 Ascertaining the value proposition for investors

Despite a broad agreement on the overall benefits of incorporating E&S information into capital allocation and management decisions, there is limited quantifiable data to establish the impact it has had on business, and the scalability, repeatability and transferability of the same.

In order to determine this business case, which is crucial to achieve investor convergence, a roundtable was organized with a select, but representative group of investors, catalysts and policy makers. The investors shared case studies and examples where disclosure and reporting on E&S issues by (potential) investees resulted in financial or operational benefits for investors, and these have helped shape the business case.

'In addition to the MCR, that is sector agnostic, there is also a need for sector specific reporting requirements. While, some sectoral disclosure and reporting frameworks already exist, none of them have widespread acceptance'

‘There exist several cases, in which positive E&S performance was used by investees to increase market share and occasionally, was also seen as a driver for innovation and uncovering profitability’

The benefits for the different investors fell into the following categories:

1. Mitigation of operational risks and prevention of possible losses

Presently there is a lack of systematic scrutiny on E&S performance, which in turn causes organizations (unintentionally) to be under-prepared to address those issues. When Finance+ investors explore these issues, as part of their due diligence and ongoing monitoring, they have uncovered non-compliance with laws of the land, and unveiled E&S threats to business operations.

These issues, on being addressed have preserved the enterprise value of the investment and forestalled risk.

Case Study : Standard process on land acquisition alerts portfolio company to unseen risks

A large DFI was considering investment in a greenfield project with a reputed project developer, for which large tract of land was acquired in village area. In the public hearing there was a cursory mention that grazing land will be lost in the area where land was acquired for the project. Even though this was considered to be a minor issue, the DFI’s internal processes mandated addressing each of the concerns and thus, they probed more and discovered gravity of the issue.

Through consultations with the project developer and the affected community, it emerged that the community would have lost their livelihood due to this land acquisition. In hearings the community exhibited hostility towards the project with potential disruption and / or damage to the property. The issue was complicated by the fact that in the land acquisition, the portfolio company was looking at only a part of the land; and that other tracts were also being acquired by other developers.

In order to resolve this issue, the DFIs portfolio company, proactively engaged in the dialog with the community to have a transparent exchange of concerns; and asked the community to come up with a solution. As the primary concern for the latter was cattle fodder, the solution proposed by the community required the developer to buy fodder for their cattle for 6 months in a year.

Result

This approach to understand and manage E&S risks resulted in benefits for the investor, the portfolio company as well as the community. The solution ensured that developer de-risked their project and preserved its reputation. It also lead to an investment by the DFI of ₹4.2 billion ($75 million), in this project whose total cost was ₹22 billion ($400 million).

2. Identification of investees with larger market share and greater profitability

When Finance+ investors select opportunities based on E&S performance, they are usually picking investees that also have a positive E&S impact. In several cases, it was observed that the positive E&S performance was used by investees as a differentiator to increase market share. This was especially true of investees of Social investors and DFIs. For instance in a segment such as food services, investees that displayed proactive formal measurement on E&S parameters, such as production environment hygiene, appropriate waste disposal and fair wage rates, also saw a better price for their products and lower labor turnover (and hence lower overall cost).

Occasionally E&S measurement was also seen as a driver of innovation and increasing profitability of investees in hitherto traditional markets.

E&S integration leads to identification of new market segments

A VC firm was in the process of making an equity investment in a quick service restaurant in India. On evaluation of health and environmental aspects, it was found that the norms for hygiene were not being adhered to and the assessment concluded that the investment lacked on these parameters.

To resolve the issue, the VC made several recommendations to the promoters of the portfolio company, amongst which was a change in layout design and greater transparency in use and sourcing of standardized food ingredients.

Result

As a result of adoption of these best practices in the restaurant businesses, which reflect ethics and transparency of the organization, the restaurant saw an increase in its sales. Also, the profile of its customers changed from a low paying demographic segment to a class of people with more disposable income. As a consequence, the price point charged by the restaurant and the margins could be increased.

3. Reputation of the investor

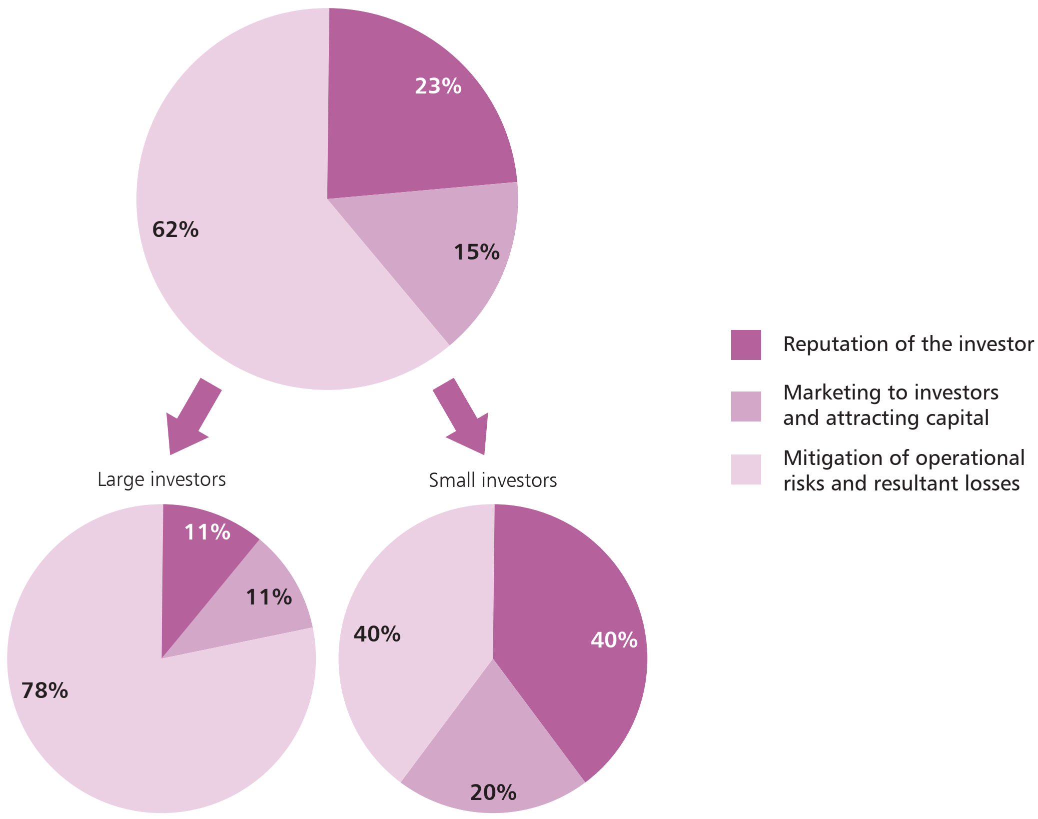
Although the reputation of the investors is not directly related to the quantifiable impact; this was the second largest benefit realized by investors as it directly affected their goodwill. This is also especially important to Social investors and DFIs, which are operating on the premise of "doing good before doing well".

4. Attractiveness and marketability of the investor to raise more capital

Some investors (mainly asset managers) also benefitted from getting access to more capital, as a result of pursuing E&S disclosure and reporting with their portfolio companies. This enabled them to become more visible to long-term capital providers (such as pension funds, sovereign funds and government capital) that are looking for progressive asset managers, looking at risk and return in a more comprehensive manner.

Fig. 6-3 represents the different benefits cited by investors, as they incorporated E&S information into their own operations.

Figure 6-3: Benefits of disclosure and reporting for investors



Value proposition: Risk vs Return

From an operational standpoint, the value proposition for investors with AUM> $100 million, to drive E&S disclosure in investees, is different from that of investors with AUM< $100 million. For the first set of investors the operational driver is primarily risk mitigation and prevention of losses. For the second set of investors (AUM< $100 million) the driver is opening up of newer markets.

'Investor survey revealed that reputation and compliance were, as expected, the largest benefits for measuring E&S performance, but there were also cases, where it lead to increased capital flow'

'Research on the disclosure / reporting levels of top 100 listed businesses in India shows that only 30% of the companies amongst the top100 companies are currently furnishing sustainability or integrated reports'

6.2 BUSINESSES CAN ADOPT THE MCR: GAIN OPERATIONAL EFFICIENCIES AND ATTRACT CAPITAL AT LOWER COSTS

Action: There are sectors, which lend themselves to an early adoption of the MCR. These sectors are those which are being actively being invested in by Finance+ investors.

Value Proposition: The business case for the early adoptor sectors contains both operational and capital benefits, i.e. cost savings and additional capital flow respectively.

6.2.1 Identifying early adopter sectors

Businesses will voluntarily comply with standardized E&S disclosure and reporting only if the benefits accruing to them for doing so would be greater than the cost and efforts involved. Applying this lens, certain sectors and businesses lend themselves to early adoption of standardized E&S reporting as they stand to realize immediate benefits in doing so. These sectors and businesses are also in a position to be the catalytic forces that can facilitate capacity building and drive 'en-masse' adoption of the standards.

In order to identify the businesses that lend themselves to early adoption, it is important to identify sectoral and other pressures due to which, some companies are already inured to disclosure and reporting, and by extension have established and tested processes for measuring E&S data. Fig. 6-4 represents how different pressures exist for businesses and the early adopters that emerge thereof. Currently, two major forces, applicable to businesses, are push from policy makers by way of laws and mandatory regulations and a need to demonstrate a 'license to operate' which stems from businesses operating in sectors with high E&S impact.

Figure 6-4: Identifying businesses which can be early adopters of the CTC solution

Funneling criteria: push from policy makers

There exist strong policies in certain sectors, which exerts a push for businesses to measure and report E&S impact. These policies pertain to the following:

1. Regulation focus

Expectedly, E&S regulations exist in sectors that have high E&S risks. Long term institutional investors are wary of such risks, which means most businesses have established processes and systems in place to measure and report E&S information. Given their relatively higher level of preparedness, these sectors lend themselves to an early adoption of a standardized E&S disclosure and reporting framework. These industries include: Infrastructure, Extractive, Energy Production and Heavy Manufacturing.

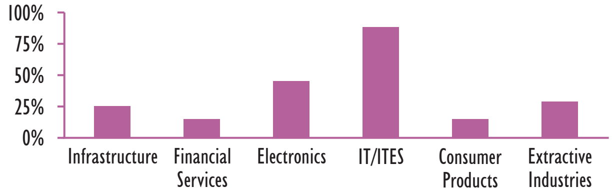
2. Top listed businesses in India

As mentioned in Chapter 2, the SEBI has already mandated the top 100 companies to provide business responsibility reports (also referred to as the ABRR) and this will be extended to more businesses. Given the listing aspirations of businesses, these companies are also in the position to disclose more.

Research carried out by cKinetics, analyzed the disclosure and reporting levels of top 100 listed businesses in India vis a vis the E&S elements and indicators identified above and concluded that, only 30% of the companies amongst the top 100 companies are currently furnishing sustainability or integrated reports. Fig: 6-5 reflects the disclosure and reporting levels amongst the different sectors.

While IT and IT Enabled Services (ITES) have high prevalence of E&S disclosure, there exists an opportunity for the other companies (in top 100) to increase reporting levels and make themselves attractive to investors. These include Financial Services, Infrastructure, Electronics, Consumer Products and Extractive Industries and represent a set of early adopters.

Figure 6-5: Sector-wise prevalence of disclosure and reporting in listed Indian business



Funneling criteria: High E&S impact

International investors and customers have high sensitivities to the E&S impact of their investments and supply chains in emerging markets. Thus, certain sectors, by virtue of being reliant on an international value chains, are already managing their E&S impact and are compelled to disclose information on the same. These include:

1. **Businesses with above average E&S impact:**

Social investors are already operating in the sectors, where there is positive E&S impact to be realized and are thus driving up impact disclosure and reporting. These sectors, thus, are also likely to be early adopters.

2. **Sectors with multinational value chains:**

Sectors, which cater to international customers, are often more sensitized to E&S issues due to international pressures from advanced economies such as those from Europe. They would also be in position to benefit most from disclosure and reporting.

With the above lens (of sectors with high E&S impact), businesses in the following sectors represent potential early adopters: Agriculture, Education, Processed Food, Textile, Healthcare, and Sustainable Energy. Table 6-B lists the sectors which constitute the early adopter sectors.

Table 6-B: Early adopter business sectors

Push from policy makers	Push on account of high E&S impact
• Infrastructure	• Agriculture
• Extractive	• Education
• Energy Production	• Processed Food
• Heavy Manufacturing	• Textile
• Financial Services	• Healthcare
• Electronics	• Sustainable Energy
• Consumer Products	

6.2.2 Identifying the value proposition for early adopters of standardized E&S

The business case of E&S disclosure and reporting for companies is well documented. The key benefits include: demonstrating transparency and enhancing reputation with stakeholders, attracting long term capital, and maintaining license to operate amongst others.

Moreover, it can be argued that disclosure / reporting leads to better performance, due to the following reasons:

1) Companies can benchmark and compare performances with peers and leaders, and identify areas of improvement (just as they do with financial and accounting parameters).

2) Publically available data leads to increased pressure on businesses to deliver continuous improvements from external stakeholders (again similar to the impact that financial comparisons have).

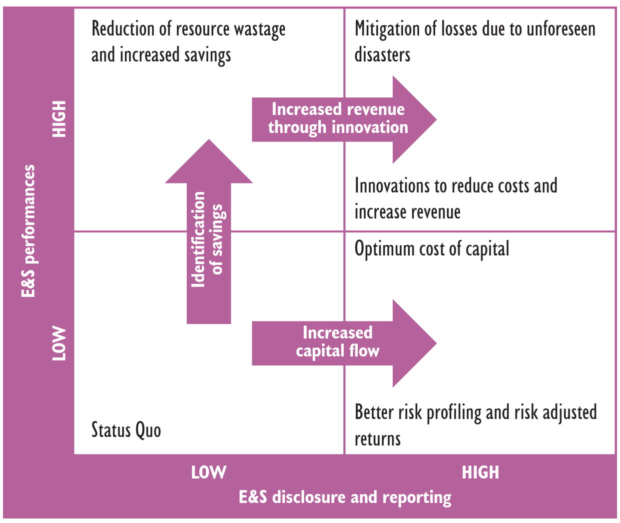
Should businesses adopt an investor driven E&S disclosure and reporting standard, it will help align them with their investors and in the near-term and enhance value in the long-term.

Helping investors make the case for E&S disclosure and reporting with their investees

As Finance+ investors engage with their investees, it is necessary that they present a compelling and quantifiable business case for companies to adopt E&S disclosure and reporting and have an acceptance of MCR. Although, the case will vary from company to company and sector to sector, there are quantitative operational benefits which will accrue as companies move toward greater disclosure and reporting and resultantly, improved E&S performances.

The matrix in Fig. 6-6 summarizes where and how the quantitative benefits will accrue to business as they move from low to high disclosure / reporting and resultantly, performances.

Figure 6-6: E&S disclosure / reporting and performance framework: benefits accruing to businesses



‘The early adopter sectors, which stand to benefit from incremental E&S disclosure, are Infrastructure, Extractive, Energy Production, Heavy Manufacturing, Financial Services, Electronics, Consumer Products, Agriculture, Education, Processed Food, Textile, Healthcare and Sustainable Energy’

‘Evidence and business case for quantifiable gains made through E&S disclosure exists in portfolio companies of Finance+ investors’

Evidence exists: Existing portfolio companies of Finance+ investors have realized gains

Finance+ investors confirmed that their portfolio companies have benefitted from increased disclosure, and shared cases of the same. A noteworthy observation was that in all of these cases the disclosure was driven by investors (in the companies they have invested in or are considering investing in).

This confirms that, once businesses align themselves and report on the common requirements that investors have, the benefits will follow. The operational and business benefits which affected the profitability of businesses, as identified by investors, (ref. Fig. 6-7) were:

- Regulatory compliance

As opposed to investors, where non-compliance has a notional or reputational impact, the impact incase of business is real and monetary; it impacts the existing and future cash flow, resulting in payment of fines, retaining the license to operate and ability to attract customers.

- Resource management

Efficient resource management is often considered the low hanging fruit of sustainability; where interventions lead to definitive savings. E&S reporting helped investors and businesses benchmark their own consumption against peers and identify the need for improvement.

- Ability to attract capital

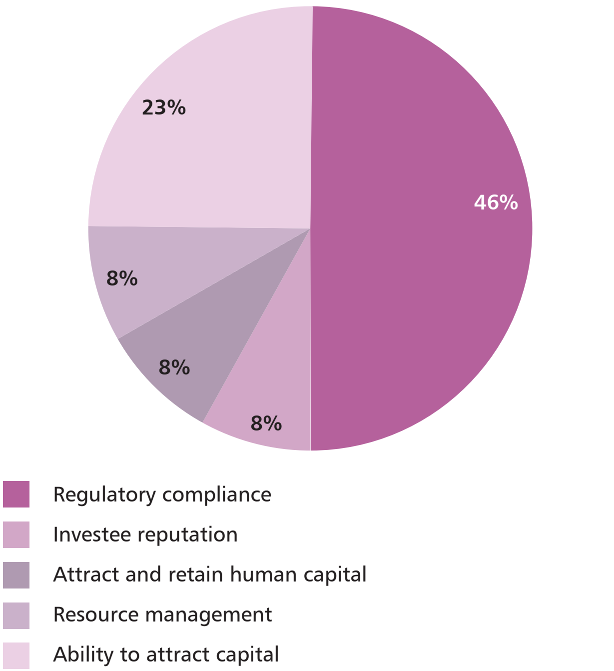
It is noteworthy that portfolio companies also benefitted monetarily through efficient resource management and capital inflow. This proves that there is investor capital, which is looking to flow into responsible businesses and disclosure / reporting on a company’s part can attract this capital (Chapter 7 will elaborate on the impact of disclosure and reporting on capital).

6.3 INSTITUTIONAL ACTION REQUIRED FOR CRACKING THE CONUNDRUM

Actions: In order to Crack the Conundrum, the existing institutional frameworks promoting disclosure will require coordination. Any efforts led by investors to promote an MCR in their portfolio, should be in alignment with existing frameworks (GRI, NVG-SEE, CDP, etc), so as to create additional value for their investees.

Value proposition: Given the nascent stage of most E&S disclosure and reporting frameworks, coordinated action with investors and businesses, will go a long way in achieving

Figure 6-7: Benefits of disclosure and reporting for portfolio companies of investors



greater prevalence of disclosure and also increase the relevance of the institutional frameworks. Moreover, the incorporation of a few MCR indicators in existing reporting frameworks will also begin to create harmonization between standards, which is imperative if E&S disclosure and reporting is to be mainstreamed.

6.3.1 Institutional frameworks can engage with business and investor frameworks

As detailed above, the challenges faced by Finance+ investors are not limited to just availability of material information, but also extend to the areas of information veracity, impact measurement and data dissemination. Businesses, at the same time, need assistance with capacity building to report; and means to act on the reports.

Institutions can help fill the gaps by providing the following:

- Developing processes and frameworks that establish credibility of information
- Helping integrate E&S disclosure and reporting into the mainstream possibly by integrating with financial reporting

- Playing the role of centralized brokers for E&S information, which in turn will help other stakeholders engage
- Creating mechanisms and benchmarks that help quantify E&S impact and help businesses as well as investors define goals

Institutions engaged during research for this report (refer the acknowledgments), confirmed that they are keen on an ongoing engagement with key constituencies, such as industry bodies, investors etc. Uniformly, over the next 12-24 months, many of these institutions have planned programs to increase disclosure, as also abet challenges and promote peer learning.

This presents an opportunity for existing institutions to coordinate actions; and investors to leverage it.

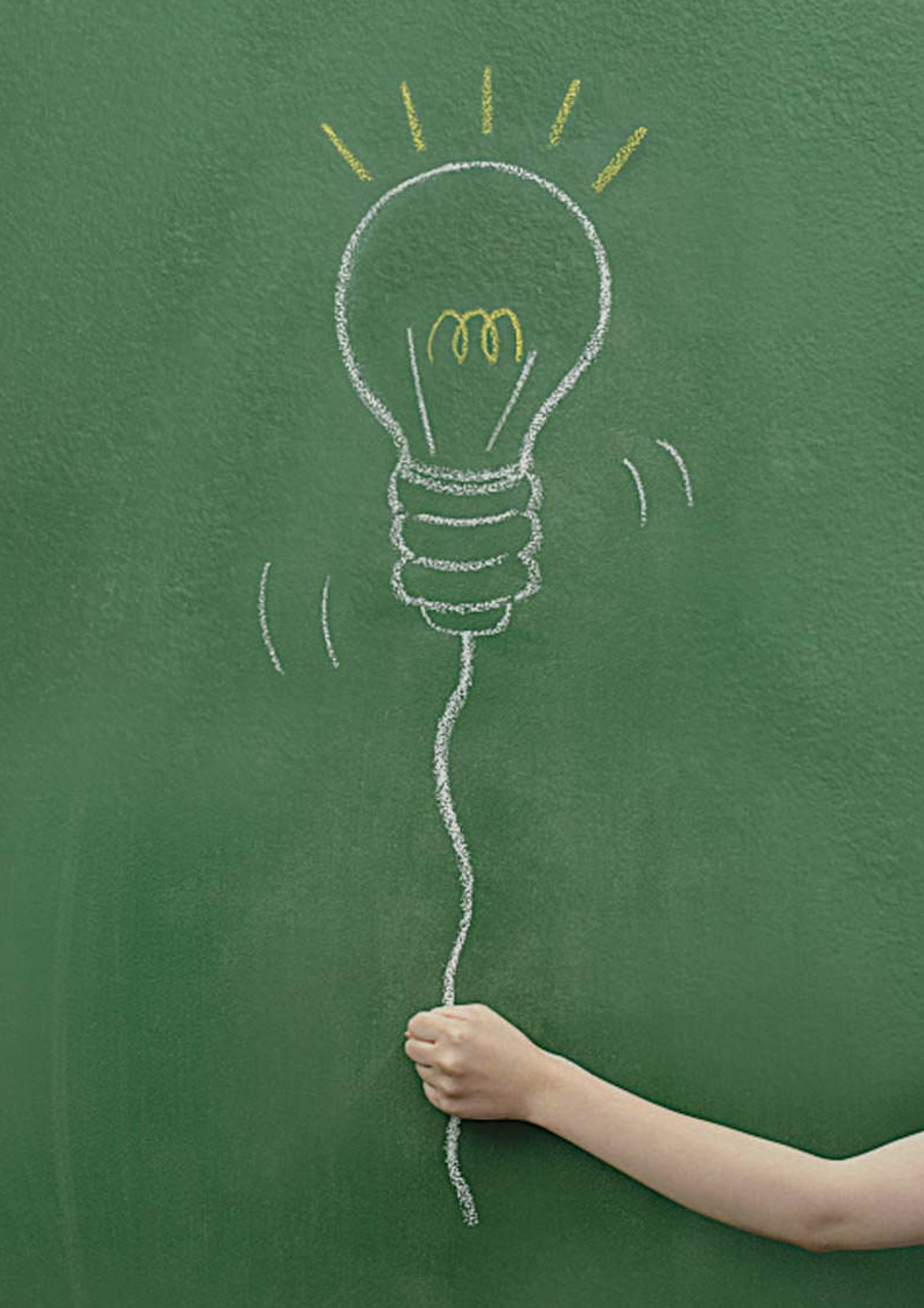
6.3.2 Potential for inter-institutional collaboration / harmonization of disclosure and reporting frameworks

It is evident that the key consideration for all institutions and stakeholders is to i) maximize impact and ii) minimize duplication of effort. These common objectives present an opportunity to different disclosure institutions, such as GRI, IRIS, CDP to work toward harmonization. In addition, certain other initiatives are looking to develop a language of reporting; for instance UNGC and UNPRI have launched the ESG Investor Briefings – a unique program to improve company-investor communications on ESG issues. For this purpose, a new framework for communicating ESG value drivers at the company-investor interface has been developed, which focuses on the impact of ESG issues on the key value drivers for a company based on materiality (i.e Return on Capital, Risk Management and Growth).

Given the existence of different institutions and frameworks, focusing on similar issues, there is definite need for collaboration and harmonization.

An analysis by cKinetics found that the both IRIS and GRI have indicators, which can be mapped to the principles to NVG. Moreover, between, NVG and GRI, there exists commonalties between the indicators – on an average 80% indicators are common between NVG and GRI per principle. These commonalities present a good stepping stone to achieve harmonization and drive collaboration between frameworks.

‘Given the existence of different institutions and frameworks, focusing on similar issues, there is definite need for collaboration and harmonization’



7. IMPACT: INCREASED CAPITAL FLOWS ON ACCOUNT OF CRACKING THE CONUNDRUM

As standardization of E&S disclosure and reporting occurs, investors that have adopted it will increasingly interact amongst themselves, leading to operational efficiencies and more capital flow. Their AUM are expected to grow from ₹3 trillion ($55 billion) presently to ₹9.6 trillion ($175 billion) in 5 years and to ₹17.3 trillion ($315 billion) in 10 years.

Presently, the capital managed by Finance+ investors, through both equity and banking channels, represents only 1% of the total amount of capital available globally. This is due to the relatively nascent market here, as well as the challenges faced by investors in E&S investing. Thus, should the investors adopt MCR for E&S disclosure and reporting (as recommended by this current research); a wider adoption of standardized E&S measures would take place in phases and lead to an increase in the capital flow in India.

Table 7-A depicts the AUM of different Finance+ investors, as it stands presently.

Table 7-A: AUM of Finance+ investors, as in 2012

Social Investors	₹14.3 billion ($260 million)
E&S seeking funds	₹100 billion ($1.8 billion)
Indian SRI funds	₹9.3 billion ($170 million)
Global SRI Funds allocated towards India	₹605 billion ($11 billion)
Developmental Financial Institutions (Indian and Global)	₹2255 billion ($41 billion)
Indian Banks	₹2640 billion ($48 billion)
Global Banks	₹1760 billion ($32 billion)

Source: cKinetics Analysis

It can be estimated that, should adoption of standardized E&S disclosure and reporting take place, the amount of capital being deployed by Finance+ investors would be at ₹17.3 trillion ($315 billion) instead of at ₹7.5 trillion ($136 billion) by 2022, due to:

1) Increased coordination between Finance+ investors

2) Increased use of E&S information by mainstream investors.

These changes will transpire in 3 stages, over an estimated 10 years. Fig. 7-1 details the 3 stages of the impact of the CTC solution.

It should be noted that the incremental capital will be a result of incremental disclosure – an improvement in the level of disclosure of 15% - 20% per year will yield the additional capital.

Methodology to quantify capital linked to greater E&S disclosure and reporting

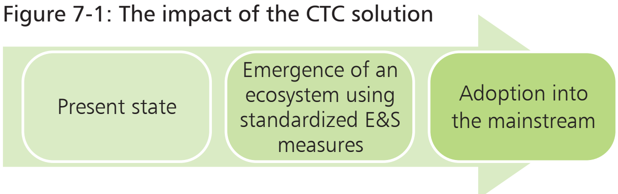
In order to quantify the impact of change in E&S disclosure / reporting levels on capital flow; a model has been developed to link the two. The model takes a two step approach in establishing the linkage:

Step 1: Identify correlation between E&S disclosure / reporting of a business (investment opportunity) and its financial attractiveness. This information has been aggregated to build a sector-level view on the linkage between reporting and financial attractiveness.

Step 2: Predict the change in capital flow and AUM of different sectors on account of change in the E&S disclosure.

The model is outlined in Annexure 3.

Figure 7-1: The impact of the CTC solution



7.1 PRESENT STATE

The present state is characterized by different Finance+ investors independently existing with respect to their processes for E&S due diligence and the resulting information needs. In India, the combined capital represented by Finance+ investors is ₹3 trillion ($55 billion) which is largely from equity providers like social investors, E&S funds, SRI funds and DFIs. In addition, another ₹4.4 trillion ($80 billion) of capital is being managed by Indian and global banks, using the E&S criteria, due to compliance reasons. (Table 7-A depicts the AUM of these investors)

Of the capital being deployed by equity investors, ₹2.1 trillion ($38 billion) belongs to early adopter sectors i.e. i) Business and consumer services ii) Energy and related infrastructure and iii) Industrial Manufacturing and extractive enterprises and the rest is deployed in other sectors. Out of the capital deployed by banks, using E&S criterion, 90% of the capital is flowing into the early adopter sectors.

'As investor groups begin to use standardized E&S information increased coordination between them will occur, leading to better deal flow and exits'

Table 7-B represents the AUM of Finance+ investors across different sectors.

Table 7-B: Finance+ capital: sectoral breakdown of AUM

Type of Finance+ investors	Sectors		
	Energy and related infrastructure	Business and consumer services	Industrial, manufacturing and extractive industries
Social Investors	₹4 billion ($73 million)	₹7.3 billion ($133 million)	NA
Indian DFI's	₹220 billion ($4 billion)	₹305 billion ($5.5 billion)	₹153 billion ($2.8 billion)
Global DFI's	₹300 billion ($5.5 billion)	₹415 billion ($7.5 billion)	₹88 billion ($1.6 billion)
E&S seeking funds	₹15.5 billion ($280 million)	₹42 billion ($770 million)	₹11.5 billion ($210 million)
Indian SRI funds	₹1.8 billion ($33 million)	₹3 billion ($58 million)	₹3 billion ($58 million)
Global SRI funds	₹115.5 billion ($2.1 billion)	₹203.5 billion ($3.7 billion)	₹203.5 billion ($3.7 billion)
Banks (Global and Indian)	₹2750 billion ($50 billion)	NA	₹1070 billion ($19.5 billion)

7.2 EMERGENCE OF AN ECOSYSTEM

As investor groups begin to use standardized E&S information increased coordination will occur between them. This will result in better deal flow and exits. Currently, Finance+ investors represent different sources of capital (a mix of debt and equity) and invest across the board, from small to large enterprises. This makes them a part of an interconnected value chain, where they create deal flow and value for each other; thereby benefitting from coordination.

Fig. 7-2 represents how different capital types can benefit from coordinated action. The arrows represent the connection between the different investors groups; i.e. which investors provide deal flow / exit options to each other.

Table 7-C represents the benefits of increased coordination across investors and stages of businesses.

Figure 7-2: Emergence of an ecosystem: coordinated action between different investor groups

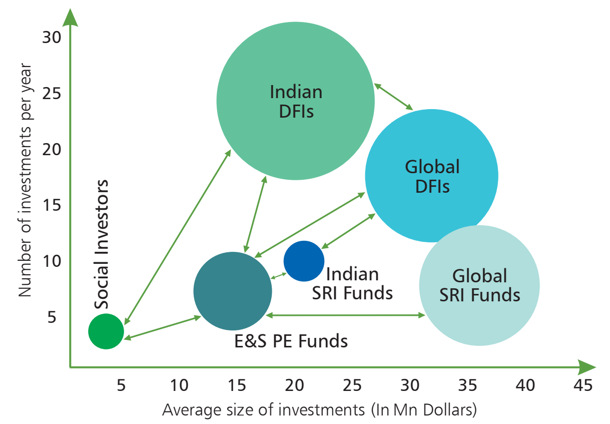


Table 7-C: Benefits of increased coordination across investors

Type of Capital	Stage of Business		
	Start Up Enterprises	MSME Sector	Large Businesses
Social Investors / E&S seeking Venture Capital	With an (E&S) 'impact first' outlook for investments, investors here, need information to ensure impact measurement. Increased coordination and demonstration of impact can help them attract more capital in high impact sectors. Investors: Social Investors, E&S seeking VCs and DFIs	Finance+ investors here, deploy enabling capital and need coordination to ensure that their investments are ready to attract more returnable capital from 'Finance only' investors Investors: Social Investors, E&S seeking VCs and DFIs	No investors here
Debt	There are limited debt providers here but some banking credit may flow (given the priority sector lending norms). Coordination and impact measurement will help ensure the impact of the regulation. Investors: Indian and Global Banks, DFIs	Debt providers here need information to ensure if businesses are compliant with laws, failing which they run the risk of running up non performing assets. Investors: Indian and Global Banks, DFIs	Given the quantum of debts here, both reputational and financial risk of non compliance is larger here, and data is needed to evaluate and price this risk. Investors: Indian and Global Banks, DFIs

Type of Capital	Stage of Business		
	Start Up Enterprises	MSME Sector	Large Businesses
Mezzanine Capital	No investors here	Mezzanine capital is deployed here, which requires relatively lesser data as compared to equity; information is needed here to ensure that investors make the investments ready for exits (which needs public / private equity players). Investors: Indian and Global Banks, DFIs, E&S seeking funds	
Private Equity	No investors here	The biggest challenge here is a secure deal flow and easement of investment screening. With coordination of data needs, investors will be able to get both better deal flow and better exists. Investors: E&S seeking funds, DFIs	The key difference between equity for MSME businesses and large businesses is that the both the risks and the costs are magnified here. Thus data is useful in mitigating the same. Investors: E&S seeking funds, DFIs
Public Equity	No investors here	Although SRI capital is limited in MSMEs, as compared to large businesses, most public equity investors need public disclosure. Thus, it is important that the private equity funds that make exits here ensure that the portfolio is aligned to the needs of these investors. Investors: E&S seeking funds doing PIPE's, SRI funds	

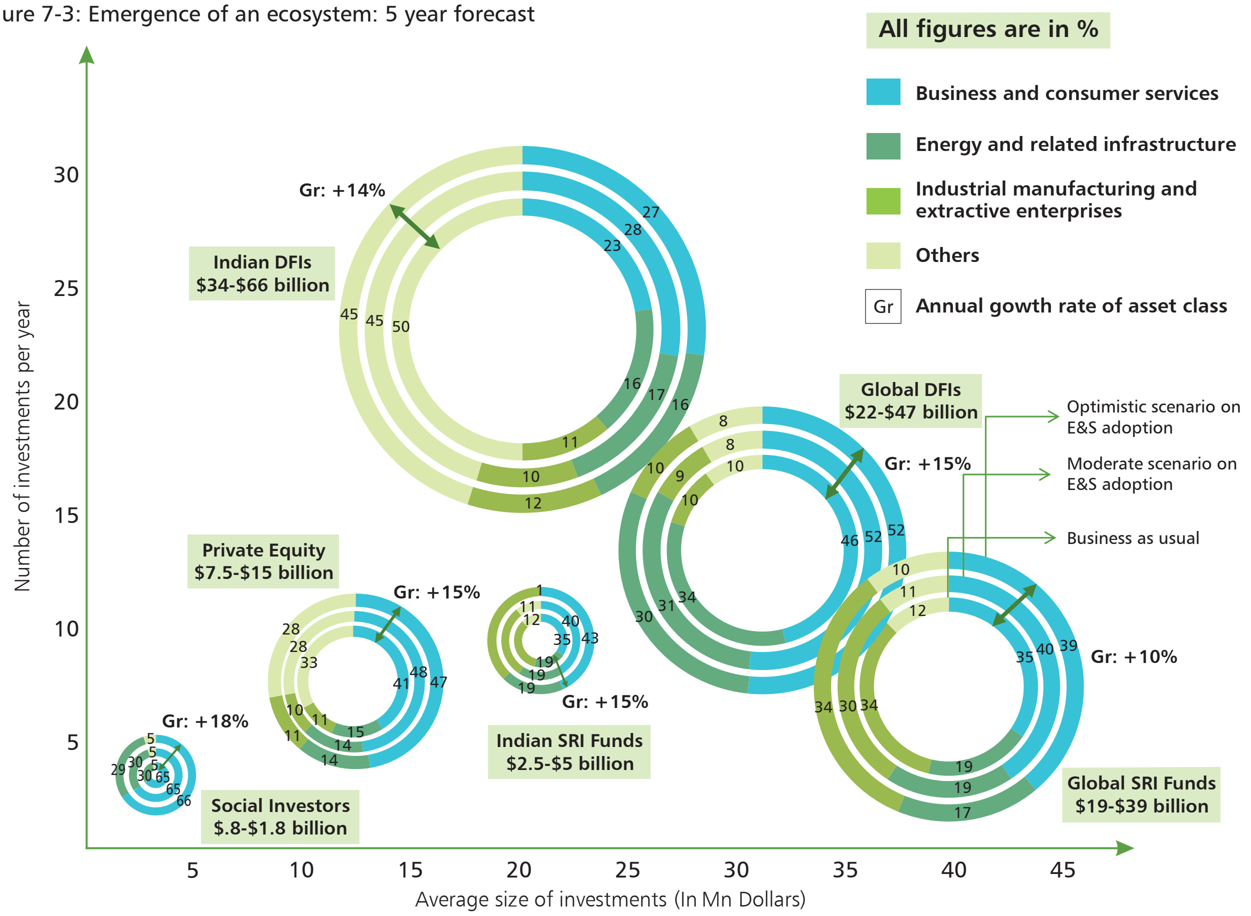
7.2.1 Increased capital flows in the emergent ecosystem

As Finance+ investors get connected through the common elements in their information requirements, the increased disclosure and reporting will also attract more capital. In a 5 year time frame it is expected that the capital flows for the different capital types will be between ₹5.5 trillion ($100 billion) in a moderate acceptance scenario and ₹9.6 trillion ($175 billion) in an optimistic scenario.

(NOTE: The capital projections are not made for banks; as the quantum of capital deployed is a function of the deposits available. The bank capital will, however, move from being "finance only" capital to being "Finance+ capital", once more information is available.

Fig. 7-3 represents the growth in this capital under a moderate acceptance scenario and optimistic scenario in a 5 year time frame.

Figure 7-3: Emergence of an ecosystem: 5 year forecast



‘CTC will impact capital flows over a ten year time frame; in five years, an investor ecosystem, using standardized E&S measures will evolve, and 10 years is likely to bring adoption of E&S metrics into the mainstream’

7.3 ADOPTION INTO THE MAINSTREAM

Adoption of the MCR into the mainstream is expected to happen within a 10 year timeframe, where the AUM of the Finance+ investors will be between ₹13.2 trillion ($240 billion) and ₹17.3 trillion ($315 billion), under a moderate and optimistic acceptance scenario respectively. This is a conservative estimate of capital that is being deployed using E&S measures, since by this time key mainstream investors will also be using E&S measures.

The increase in capital is only forecasted for Finance+ investors, although the standardized E&S metrics are expected to be used by mainstream investors as well.

Figure 7-4: Adoption into Mainstream: Interplay between mainstream investors and Finance+ investors

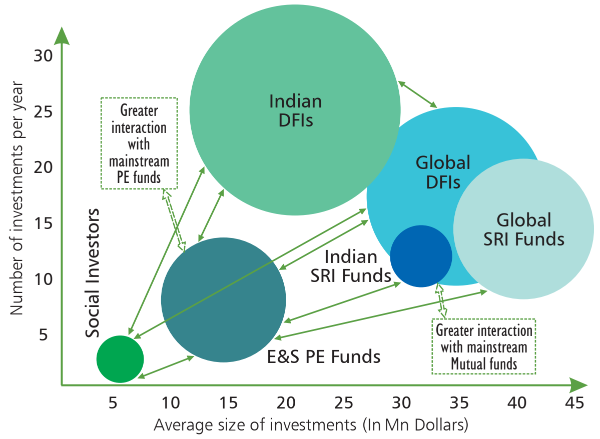
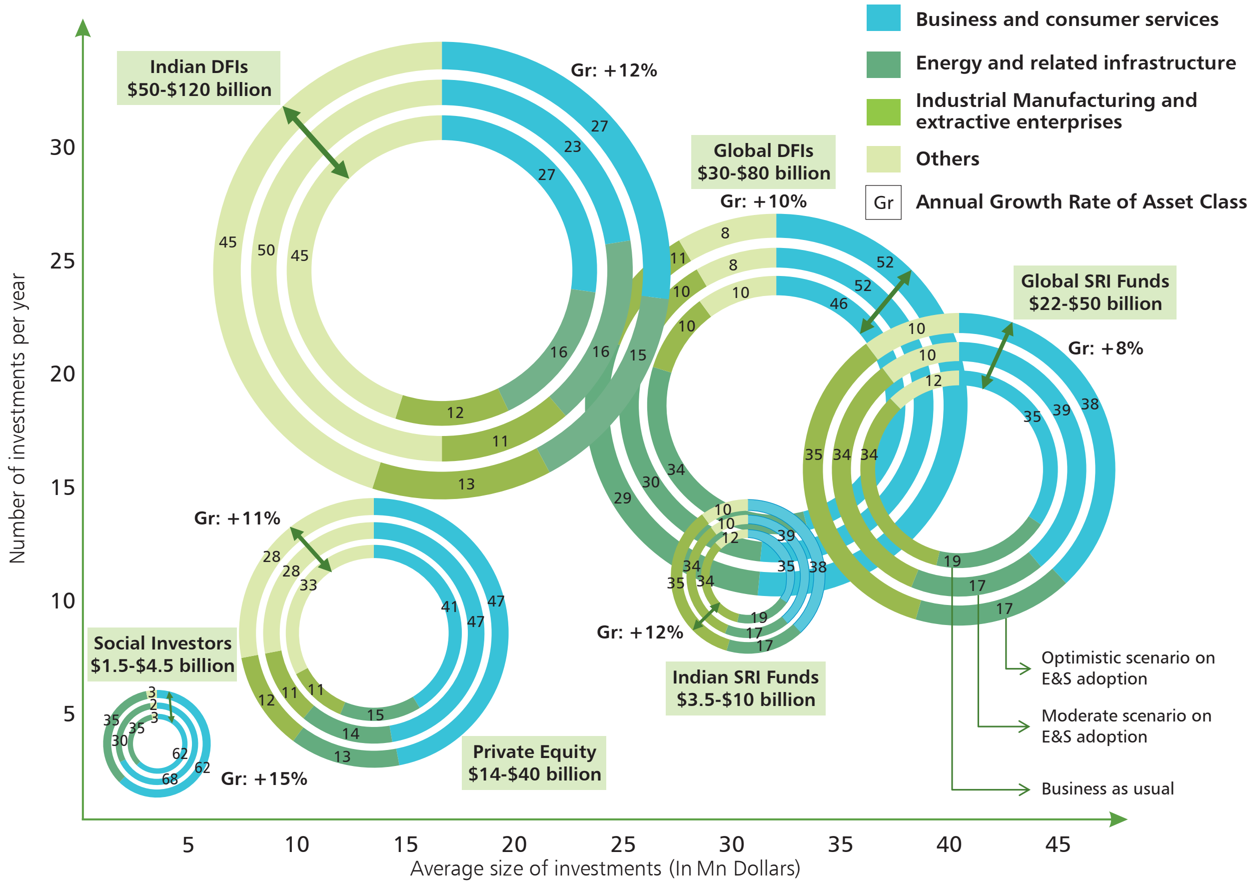


Figure 7-5: Adoption into the mainstream: 10 year forecast



7.3.1 Increased capital flows in the emergent ecosystem

Once standardized data around E&S metrics become available, mainstream investors are also expected to start using the information. Mainstream investors will be able to establish the risk and returns of their portfolio more comprehensively. They would be able to use benchmarks and comparable data, that would have emerged from the 'Finance+ investor ecosystem' and make informed decisions.

This is likely to align with a virtuous cycle where businesses are also realizing the gains on account of standardization in disclosure and reporting.

It is also likely in this phase that several mainstream investors will evolve to become Finance+ investors, and realize the benefit E&S investing brings. This will further benefit the responsible businesses, which are early adopters of standardized E&S disclosure and reporting.

7.4 FUTURE STATE

Standardization of information in the financial sector has been the key to unlocking capital flows: by providing more visibility into the risk and return characteristics of the underlying assets. Standardization brings with it, two key enablers in the short term: (a) comparability and (b) lowering information gathering costs. In the long run, standardization feeds into innovation and newer product development.

This journey of evolution of standards in the financial sector has been true: whether from the time that standards were developed for trade in 2000BC; or more recently where web-standards have been developed to allow electronic exchange of data (XBRL).

The Code of Hamurabi (evolved about 2200BC in Mesopotamia), laid out standards for recording trade transactions; if they were to be backed by the force of law. Traders as a community emerged and grew; and Mesopotamia remained a hub for trading for centuries to come.

More recently, the extensible Business Reporting Language (XBRL) was conceived towards the end of the 1990s. In just a decade it is being adopted into the mainstream across global markets. XBRL is changing the speed and efficiency at which the financial research and analyst community functions; and positively impacting accountability and performance of businesses. What has been remarkable about XBRL has been its origin as a voluntary initiative and present adoptions as a mandatory one.

On similar lines one can attempt to build a view for a future state of the industry that uses standard measures for E&S disclosure and reporting. In the early days (as one can see today), one would see the basic benefits of comparability and lower transaction cost. And in the next 10 years one can also expect to see an evolution of newer products. As capital leveraging E&S information increases, it is not hard to imagine an ecosystem that uses these newer data points. Such a future state could consist of the following (some of these are already happening):

1. New loan products: With the emergence of an E&S standard, an E&S Profit & Loss statement that takes into account true cost of a business or its projects, is a logical evolution (some companies like Puma are already doing so; and some service providers like Trucost are helping assess these costs). This, in turn, could lead to financial products that factor these costs into their return. Hence it is conceivable to have financial products adjusted for their E&S costs such as impact bonds, E&S adjusted loans etc.
2. Structured products using E&S: With the proliferation of E&S information, hedging and arbitrage strategies are bound to evolve, where firms may have similar financial return characteristics, but their E&S risk-return profile varies.
3. Mainstreaming of SRI funds: SRI funds may evolve into mainstream, or as a corollary, mainstream funds may begin to use SRI strategies. Moreover, fund managers will be ranked on E&S criteria.
4. Policy development: It will lead to emergence of policy directives that extend E&S impact into the fiduciary responsibilities of businesses.

'In the future state (the next 10 years), one can also expect to see an evolution of newer products and services, based on evolutions of an E&S standard'

8. FROM PRESENT TO FUTURE

In order to Crack the Conundrum and make standardization of E&S disclosure and reporting a reality, Finance+ investors, their portfolio companies, progressive businesses, and policy makers need to act in synchrony. Some of the actions have already begun.

As outlined earlier in the report (Chapter 2), several initiatives are already under way in India that are being led by investors, stakeholders and policy makers for promoting standardized E&S disclosure and reporting.

Investor and multi-stakeholder driven

- GRI focal point India
- CDP India
- Green ratings by SMERA
- Impact Reporting and Investment Standards (IRIS)

Indian policy driven

- National Voluntary Guidelines for the Social, Environmental and Economic Responsibilities of Business (NVG-SEE)
- SEBI mandate for listed companies to produce an Annual Business Responsibility Report
- Guidelines on Sustainable Development and Corporate Governance for Central Public Sector Enterprises (CPSEs)
- ICAI framework for sustainability reporting

It is important to highlight that many of these initiatives are nascent, which implies that their sponsors have plans to propagate them. This presents an opportunity for Finance+ investors to leverage the momentum and makes the timing opportune to converge behind them.

A prescriptive set of near-term recommendations also emerged from the interviews conducted while preparing this report. Given that the report has an investor lens, the action items are also investor related or investor driven:

1. Need for an ongoing engagement platform that will enable investors to converge
2. Requirement for a guidance document on how to deploy a standardized E&S approach and how to conduct assurance
3. Need to leverage existing institutional frameworks and undertake coordinated action

8.1 NEAR TERM ACTIONS ENVISAGED

8.1.1 Need for an ongoing engagement platform to enable investors to converge

It emerged through the conversations that many progressive investors (mainly the Finance+ investors) and stakeholders were unaware of the overlaps and similarities that existed between their information needs. Through the workshops conducted during the report, many areas of synergies emerged. Despite having common end goals, different investors and stakeholders are pursuing different interventions to engage businesses to report on E&S parameters.

Hence it is imperative that the different initiatives are connected, either to multiply reach and results or to gain from consultation and experiences.

Existing investor groups and associations can do so by creating a special interest group, that would be focused on driving standardized disclosure.

8.1.2 Requirement for a guidance document on how to deploy a standardized E&S approach

The existence of different global, local and sectoral standards, in India, create duplicity in efforts of business and investors, which are looking to realize all the benefits of a common framework for disclosure and reporting.

In the near term, there is a need for guidance document that will cover the following:

1. **Mapping how E&S disclosure and reporting framework relate to one another:** this would allow investors and businesses, using an existing framework, make informed decisions of adapting to or adopting a newer one.
2. **Outlining a plan for adopting and implementing a given framework for businesses and investors:** not surprisingly most businesses and investors don't have dedicated E&S tracking teams; and those do, have rather recently set them up. Thus, sharing of best practices, as served by a guidance document, would be useful.

'There is a need to leverage existing institutions and frameworks to enable the uptake of the voluntary disclosure and reporting initiatives as well as to promote responsible business actions'

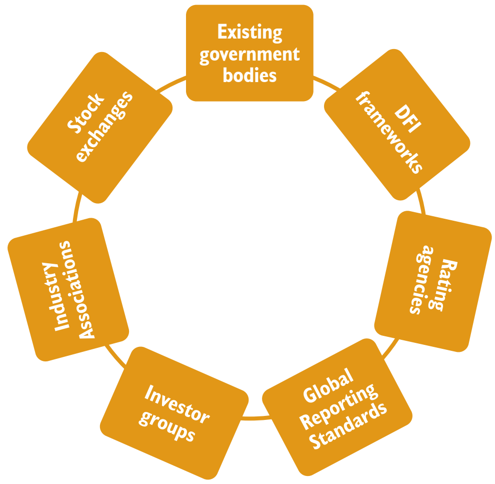
3. **Defining the Minimum Common Requirement (MCR) as suggested by this report and converging around it:** this would increase the speed of adoption of standardized E&S measures. A suggested direction for the MCR, based on the research carried out for this report, is also listed in Chapter 6.

4. **Building a view on assurance and how that would be carried out:** assurance is critical for both business, making the investments on E&S, and investors. Both have a need to review the progress of the E&S related plans and track the impact on investments being made.

8.1.3 Leveraging existing institutional frameworks

A key area where coordinated action is required is leveraging existing institutions and frameworks to enable the uptake of voluntary disclosure / reporting initiatives and to promote responsible business actions. This need has been reiterated in recent meetings with Finance+ investors, policy makers and stakeholders. Policy makers in India are particularly keen, given their desire to propagate the NVG-SEE.

Figure 8-1: Different institutions working on E&S disclosure in India



There are several existing institutions presently working on E&S related issues (Fig. 8-1). These include:

(i) Government bodies charged with enforcing legislation. These include divisions of Ministry of Corporate Affairs, Ministry of Environment and Forests, Ministry of Labour, Reserve Bank of India, SEBI and other relevant government entities; that are charged with enforcement of existing disclosure and reporting requirements

(ii) DFIs both Indian (SDIBI, ILFS, IDFC etc) and global ones operating in India (IFC, KfW, JICA etc), that have mandates to promote disclosure and transparency

(iii) Rating agencies and providers of indices (e.g. SME Rating Agency of India, CRISIL etc.)

(iv) Efforts by existing voluntary initiatives, such as GRI, IIRC, CDP India, UNGC LEAD program, IRIS etc.

(v) Institutions recommending guidance, like Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India etc.

(vi) Investor groups, like UNPRI, Indian Venture Capital Association, GIIN etc.

(vii) Stock exchanges and Junior Stock Exchanges

(viii) Industry Associations in the sectors selected

(ix) Private sector players, such as ESG consultants, Auditors, Trade publications / news providers, conference organizers etc.

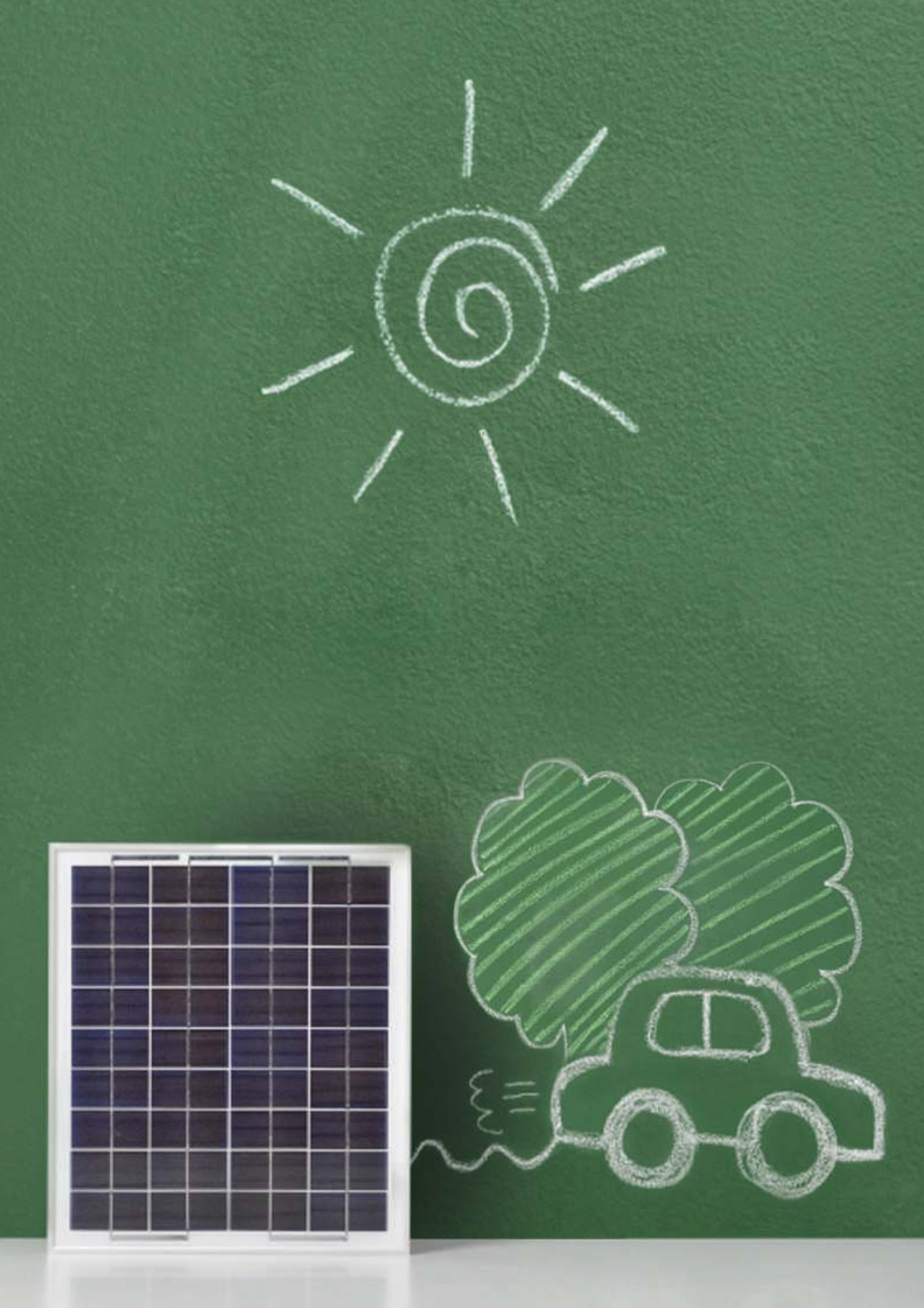
8.2 Continuing developments

This report is being written at a time, when the landscape for E&S disclosure and reporting is rapidly evolving in India. When the research was being conceived in mid 2011, there was little discussion on the subject and investors in India, (who have been a key constituency for this report) were still recovering from the aftermath of the financial meltdown of 2009.

During the course of the research, several groundbreaking voluntary and mandatory requirements were announced, which have been profiled in this report. As they make their way into the mainstream, you can keep track of the developments at: www.cKinetics.com/crackingtheconundrum

In order to engage with some of the follow-up activities listed above, please connect with the authors who can connect you with the appropriate resources.

ANNEXURES



ANNEXURE 1 : ACKNOWLEDGMENTS

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Hemendra Mathur	SEAF
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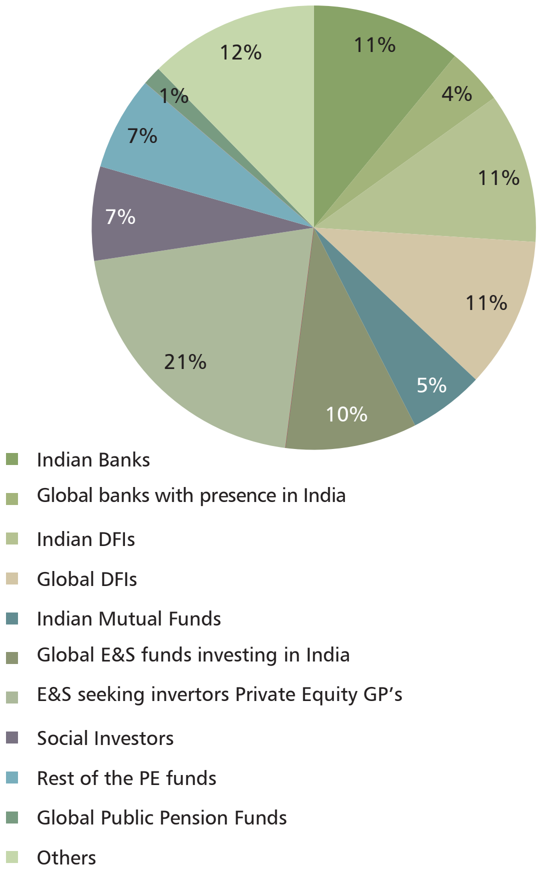
ANNEXURE 2 : BREAKDOWN OF INVESTORS INTERVIEWED AND SURVEYED

The insights presented in this paper reflect the opinions of over 80 investors and institutions, which were consulted through interviews and surveys. The conversations were targeted to investors, across type and stage of investments, asset classes, and domiciles, to ensure a comprehensive understanding. The following figures represents the how the focus groups is representative of the different investor categories.

Breakdown of Investors interviewed

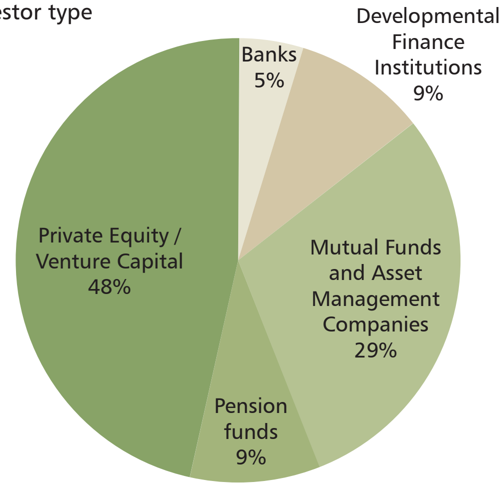


Investor Survey: Sample Size and Details

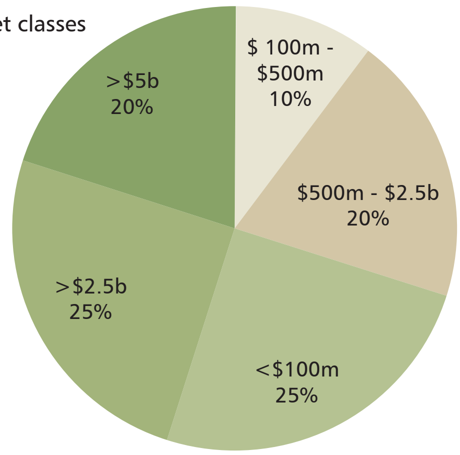
After having identified the Finance+ Investors, a survey of the same was conducted, with the objective of understanding the investor perspective on disclosure and reporting of E&S performance data. The sample size of the survey was 40 different institutions and the breakup is represented in figures above.

Breakdown of Investors surveyed

By investor type



By Asset classes



ANNEXURE 3 : MODEL FOR QUANTIFYING FINANCIAL IMPACT OF E&S DISCLOSURE AND REPORTING

In order to quantify the potential financial impact due to a change in E&S disclosure and reporting measures, a model has been developed to link the two. The model takes a two step approach in establishing the linkage:

Step 1: Identify linkage between the E&S disclosure and reporting measures of an investment opportunity (i.e. a business) and its financial attractiveness. The business level information has been aggregated to build a sector-level view on the linkage between E&S disclosure and reporting and financial attractiveness of the sector.

Step 2: Predict the change of capital flow and AUM in different sectors on account of change in the E&S disclosure and reporting.

3.1 METHODOLOGY AND APPROACH FOR LINKING E&S DISCLOSURE AND REPORTING TO FINANCIAL ATTRACTIVENESS

As a first step, the E&S disclosure and reporting and the financial attractiveness were quantified for nearly 100 businesses across a number of sectors.

The model used to establish the correlation between financial attractiveness and disclosure and reporting, has been adapted from the working paper titled "Corporate Social Responsibility and Access to Finance" by Beiting Cheng, Loannis Loannou, George Serafeim[31].

The model that has been adapted for this study, explores the correlation between

- E&S disclosure / reporting Score
- Capital constraints of businesses (as embodied by the KZ Index, which is described below)

3.1.1 E&S disclosure / reporting Score (ESDS) for the 100 listed businesses

Since data is most widely available in listed companies, their disclosure / reporting and investor attractiveness was studied.

The focus within the listed companies has been on the 100 largest businesses in India. While one can argue that they are not representative of the investor-attractiveness and disclosure / reporting for the entire industry, it provides a starting point to develop a hypothesis on capital flows. Moreover, as will be outlined later, adjustment factors have been applied to reflect the fact that smaller businesses and businesses in certain sectors will find lesser linkages between their quality of disclosure and reporting and what investors will seek.

Public reports of 100 Indian companies were examined for prevalence of disclosure and reporting on 35 key indicators that touched upon a variety of E&S parameters.

The parameters were codified from the annual report and sustainability reports of the companies and information collected for the period 2009-10, 2010-11 and 2011-12. The ESDS was arrived at by taking into account 3 key factors:

$$ESDS = f\left(\begin{array}{c}\textit{Level of disclosure of an indicator, Longevity of}\\ \textit{disclosure, Assurance conducted on the disclosure}\end{array}\right)$$

3.1.2 Capital constraint for the top 100 listed Indian businesses (KZ Index)

Capital constraint of a business reflects the degree to which the businesses are limited in their ability to raise capital. As a corollary, lower the capital constraint greater the ability of a firm to raise capital.

The capital constraint is measured through the KZ Index, which is a widely recognized measure of the same.

KZ Index = -1.001909 x Cash Flows / K + 0.2826389 x Tobin's Q + 3.139193 x Debt / Total Capital + -39.3678 x Dividends / K + -1.314759 x Cash / K

Where

Cash flow: Total Cash flow from operations and investments is the difference between cash at the beginning and at the end; after accounting for non cash expenses and revenue items. This is normally derived from the P&L account and Balance Sheet in the form of a Cash Flow Statement.

Debt: This is measured as the long term debt; typical instruments for which include loans, bonds, mortgages etc. Long term debt is reflected in the liability side of the company balance sheet.

Total Capital: Total capital is the money invested by equity holders in the company. Calculated from the balance sheet, instruments normally include computing tier 1 equity capital (common stock and qualifying preferred stock), plus tier 2 capital (reserves for loan losses, subordinated debt, and preferred stock not counted as tier 1 capital).

Tobin's Q: The Q ratio is calculated as the market value of a company divided by the replacement value of the firm's assets.

3.1.3 Building correlations between capital constraint and ESDS

A linear regression[32] model was run, using KZ index as the dependent variable and ESDS as the independent variable, in order to establish the link between the two.

On running the regression, over 3 time periods and 5 sectors, the model revealed that certain sectors have a greater linkage between E&S and KZ score than others, i.e linkages exist between the ESDS and the KZ index i.e. as ESDS increases, the capital constraint reduces. This is consistent with the model output described in the working paper by Cheng, Loannou and Serafeim.

Analyzing the information at a sector level within India helped determine sectors with stronger correlations.

Table : Negative correlation between KZ Index and ESDS

Sector	Intercept	Coefficient	StdDev	T stat
Business and consumer services	1.45	-0.08	0.02	-3.76
Industrial, manufacturing and extractive industries	1.88	-0.07	0.03	-2.27
Energy and related infrastructure	2.08	-0.04	0.03	-0.95
Construction and housing	0.91	-0.03	0.05	-0.53
Consumer goods and retail	-0.57	-0.04	0.16	-0.27

As a cautionary note: correlation does not imply causation. Hence while a correlation may exist between ESDS and financial attractiveness, the cause may be very different. Some investors for instance use disclosure and reporting as a proxy for management quality. Hence, for such cases, management quality is the cause for greater investment and greater disclosure / reporting. As a part of this study, the cause for the correlation has not been explored. It is assumed that some set of factors cause the correlation; and that such a correlation will hold in future. It is a fair assumption to make, since only broad estimates are being made on change in capital flows.

The sectors, which have a stronger linkage between ESDS and KZ index have been used for modeling purposes are:

a. Industrial, manufacturing and extractive industries

b. Business and consumer services

c. Energy and related infrastructure

3.2 Methodology and approach for predicting change in capital flow (and assets under management)

The data resulting from the aforementioned regression is used to predict the KZ index, and by extension, increase in the availability of capital, based on the ESDS. The assumption is that there exists a linear relationship between KZ index and the amount of capital available in the market; thus, a decreased score (and thus decreased capital constraints) would mean that more investors are willing to invest in these businesses, and thus the supply of capital has expanded accordingly. (A more robust methodology would involve defining the scale that links the KZ index and capital flows; which is left for a future study)

In order to predict change in capital, a 4 stage process has been followed:

3.2.1 Forecasting the ESDS score

The forecast for the average ESDS score, over a 5 year and a 10 year period has been independently identified for each sector, based on the existing distribution of scores, the prevalence of external pressures on the businesses of the sector vis-à-vis disclosure and reporting and the relative position of the overall ESDS score as compared to other sectors.

3.2.2 Estimating the KZ score (change in capital constraint)

Based on the ESDS scores estimated (independent variable), the following regression equation is used to calculate the KZ score for each sector for different time horizons.

$KZ_{st} = \text{Intecept}_s + \text{Coefficient}_s * ESDS_{st}$

Where,

- KZ_{st} is the capital constraint for investment in sectors, in time period t
- $ESDS_{st}$ is the expected E&S score in sector s, in time period t
- $Intecept_s$ and coefficients are the intercept and coefficient respectively from the regression model

3.2.3 Modeling the change in capital flows in different sectors

Present capital flows from the Finance+ investors into the 3 sectors identified above were researched and totaled. To this present capital flow, the estimated KZ score is applied to predict the amount of capital, which would flow due to the forecasted change in ESDS.

In order to predict the future capital, the following equation is used

$\text{Future Capital Flow}_{zst} = (1 + \text{Growth}_{zst}) * |(1 + ?\ KZ_{st} / KZst)| * \text{Adj}_z * \text{Present Capital Flow}_{zs}$

Where,

- $\text{Future Capital Flow}_{zst}$ is the future capital flow of type z, available for sector s in time period t
- Growth_{zst} is the expected growth of the capital flow type z, in sector s, in time period t; that would have happened irrespective of whether there were steps taken to promote disclosure and reporting.
- ? KZ_{st} is change in KZ index for sector s in a time period t i.e. ? $KZs_{t=}$ $KZ_{st} - KZ_{s0}$ (as obtained from the earlier stage)
- Adj_z is the adjustment factor for the coefficient for capital type z. $\text{Adj}_z = 1$ for investing in the largest public equities
- $\text{Present Capital Flow}_{zs}$ is the present capital of type z, available for investment in sector s

The different capital flow types mentioned above, are the Finance+ capital types i.e. annual investment flows from Social investors, Private Equity investors (only those using E&S information), Development Financial Institutions (both Indian and Global), and SRI funds (India and Global).

3.2.4 Estimating AUM for different capital types

In addition to modeling capital flows, the future state of different capital types were also estimated i.e. what would be the difference in their AUM in a state where E&S information is more widely available.

$\text{Future AUM}_{zt} = f(\text{Future Capital Flow}_{zst}, \text{Distribution}_{zs}) * \text{Holding period}_z$

Where,

- Future AUM_{zt} is the future AUM of capital type z in time period t
- $\text{Future Capital Flow}_{zst}$ is the future capital flow of type z, available for sector s in time period t
- Distribution_{zs} is the weight of sector s in the portfolio of capital type z, which has been assumed constant over time for simplification
- Holding period_z is the average duration of time that investor type z holds investments

ANNEXURE 4 : LANDSCAPE OF GLOBAL STATE DRIVEN E&S DISCLOSURE AND REPORTING INITIATIVES

Country	ESG Policy/initiative	Details	Mandatory/Voluntary	Target
Australia	Financial Services Reform Act 2001[33]	Under the Financial Services Reform Act (FSRA) issuers of financial products are obliged to disclose in their Product Disclosure and reporting Statement the "extent to which labor standards or environmental, social or ethical considerations are taken into account in the selection, retention or realization of the investment."	Mandatory	Financial services companies
Australia	Corporations Act 2001[34]	As a part of their annual report, corporations have to disclose their performance in relation to applicable environmental regulations.	Mandatory	Public companies and large proprietary companies
Canada	Bank Act 1991[35]	The Act requires banks and other financial institutions with equity of CDN$1 billion or more to publish an annual statement describing their contributions to the Canadian economy and society.	Mandatory	Banks and FIs
China	CSR Guideline for State-Owned Enterprises[36]	State-owned Assets Supervision and Administration Commission (SASAC) released a directive in 2008 strongly encouraging state-owned enterprises to report on their sustainability/CSR activities.	Voluntary	State-owned companies
China	Green Securities Policy[37]	MEP in partnership with the China Securities Regulatory Commission (CSRC) launched Green Securities Policy which mandates listed companies to disclose more information about their environmental record.	Mandatory	Listed companies
Denmark	Law on CSR reporting[38]	Law makes it mandatory for publicly listed companies, state-owned companies and institutional investors to include information on corporate social responsibility (CSR) in their annual financial reports.	Mandatory	Listed and State owned companies
France	Nouvelles Régulations Éco nomiques (New Economic Regulations) 2001[39]	Larger French listed companies are required to make numerous detailed social and environmental disclosure and reportings, largely based on GRI indicators.	Mandatory	Large listed companies
France	Article 225 on CSR reporting[40]	Under the new decree and all companies are required to report on the social and environmental impact generated by their business. The reported data needs to be verified by a third party.	Mandatory	Listed companies and for others companies
Germany	Corporate Governance Code[41]	Essential statutory regulations for the management and supervision (governance) of German listed companies and contains internationally and nationally recognized standards for good and responsible governance.	Mandatory	Listed companies
Germany	BilReG - Reform Act on Accounting Regulations[42]	Company annual report should include analysis on both financial and non-financial key performance indicators.	Mandatory	All
India	National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business[43]	Guidelines for companies to report information on performance and policies related to governance, product life cycle sustainability, employee well being, stakeholder engagement, human rights, environment, policy advocacy, inclusive growth and customer value.	Voluntary	All companies
India	Business Responsibility Reporting[44]	The Securities and Exchange Board of India (SEBI), has mandated the 100 largest listed companies to report on Environmental, Social and Governance (ESG) initiatives undertaken by them through a Business Responsibility (BR) report which would form part of a company's annual reports/filings. Additional companies would be phased in.	Mandatory	Largest listed companies

Country	ESG Policy/initiative	Details	Mandatory/Voluntary	Target
India	Reporting guidelines for Central Public Sector Enterprises (CPSEs)[45]	As per the guidelines, the Management Discussion and Analysis section of the annual report of Central Public Sector Enterprises (CPSEs) should include disclosure and reportings on environmental protection and conservation, technological conservation, renewable energy developments as well as corporate social responsibility.	Voluntary	State-owned enterprises
India	Corporate governance disclosure and reporting[46]	Mandatory corporate governance disclosure and reporting as per SEBI norms for all listed companies	Mandatory	Listed companies
Japan	Environmental Reporting Guidelines (2007)[47]	Environmental reporting to include: (1) Status of environmental management (2) Status of activities for reduction of the negative environmental impacts (3) Status of relationship between environmental considerations and management (4) Status of social initiatives	Voluntary	All
Japan	Eco-Action 21[48]	Guidelines to allow small-to-medium sized corporations (SMCs) to deal more easily with environmental management systems and environmental activities reports.	Voluntary	Small-medium sized corporations
Norway	Government Pension Fund Global (GPFG)[49]	GPFG managed by the Ministry of Finance, takes ethical, environmental and social issues into account in its fund management. Ministry established ethical guidelines for the GPFG.		Pension Funds
Norway	Code of Practice for Corporate Governance[50]	Companies are required to report on their corporate governance in the annual report.	Mandatory	Listed companies
South Africa	Government Employees Pension Fund (GEPF)[51]	GEPF will integrate ESG issues within its equity, property, private equity and infrastructure investments.		Pension Funds
Spain	Sustainable Economy Law[52]	Companies need to file their annual corporate governance reports and sustainability reports in accordance with generally accepted standards, with a special focus on real gender equality, and the full integration of people with disabilities and must mention whether this information has been examined by an independent third party.	Mandatory	Government-sponsored commercial companies and state-owned business enterprises attached to the central government
Sweden	Guidelines for external reporting[53]	The state-owned companies shall present sustainability reports in accordance with the Global Reporting Initiative's (GRI) guidelines which, together with other financial reports such as the annual report, interim reports and the corporate guidance report, will make up an integrated basis for assessment and follow-up.	Mandatory	State-owned companies
United Kingdom	Climate Change Act[54]	By 2012 companies would need to include in their Director's report, the green house gas emissions they are responsible for generating	Mandatory	All
United Kingdom	Pensions Act 1995[55]	To ensure that pension fund trustees declare whether they have taken environmental and social issues into consideration when making decisions relating to investment.	Mandatory	Pension Funds
United Kingdom	Companies Act 2006[56]	Business review of a company must include information on a range of ESG issues to the extent necessary for an understanding of the development, performance or position of the company's business.	Mandatory	Listed
USA	SEC filing regulation[57]	Item 101 expressly requires disclosure and reporting regarding certain costs of complying with environmental laws. Depending on a registrant's particular circumstances, Item 503© may require risk factor disclosure and reporting regarding existing or pending legislation or regulation that relates to climate change.	Voluntary	Listed companies

ANNEXURE 5 : LANDSCAPE OF GLOBAL STOCK-EXCHANGE DRIVEN E&S DISCLOSURE AND REPORTING INITIATIVES

Country	Policy/initiative	Details	Mandatory/Voluntary
Australia	Corporate governance guidelines[58]	Australian Securities Exchange (ASX)'s corporate governance guidelines for listed companies. In its annual report a listed company must have a statement disclosing the extent to which the entity has followed recommendations set by ASX Corporate Governance Council during the reporting period.	Mandatory
Brazil	Novo Mercado (New Market) CG disclosure and reporting[59]	A listing segment of BM&F Bovespa for the trading of shares issued by companies that commit themselves oluntarily to adopt corporate governance practices in addition to those that are required by law.	Mandatory
China	Shanghai Stock Exchange Guideline on Environmental Information Disclosure and reporting by Listed Companies[60]	Guidelines issued by the exchange to encourage disclosure and reporting of information related to environmental performance of the listed companies either as a part of their CSR report or a separate report.	Voluntary
China	Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies[61]	Companies shall make regular evaluation and issue voluntary disclosure and reporting on the performance related to: 1) Protection of the Interests of Shareholders and Creditors 2) Protection of Employee Interests 3) Protection of the Interests of Suppliers, Customers and Consumers 4) Environmental Protection and Sustainable Development 5)Public Relations and Social Welfare Services Institutional Building and Information Disclosure and reporting.	Voluntary
China	Social contribution value per share – Shanghai Stock Exchange[62]	Companies can disclose the social contribution value per share in their annual social responsibilities reports. On the basis of earnings per share created for shareholders, the added value created for the society is calculated by adding tax revenues created for the State, salary paid to employees, loan interest paid to creditors including banks, donations and other value for stakeholders, and deducting social costs from environmental pollution or other factors.	Voluntary
Malaysia	Malaysian Stock Exchange CR disclosure and reporting[63]	Stock Exchange requires all listed companies to report on their corporate responsibility policies and programs.	Mandatory
Singapore	Singapore Stock Exchange (SGX) sustainability policy disclosure and reporting[64]	The Exchange encourages the issuer to disclose its sustainability policy, including Board assessment of key risks, performance data and other material information which assists in stakeholders' understanding of organizational performance.	Voluntary
South Africa	Sustainability reporting as listing requirement[65]	JSE, through its Listings Requirements, made it compulsory for all listed companies to comply with King Report on Corporate Governance for South Africa (King III), 2009 including the requirement for a company to produce an integrated report for its financial year starting on and after 1 March 2010, or to explain why it was not doing so.	Mandatory

ANNEXURE 6 : MAPPING SIMILARITIES AND DISSIMILARITIES BETWEEN NVG-SEE, GRI G3 AND IRIS INDICATORS

Selected Finance+ investors have been using indicators from GRI and IRIS in requesting E&S measures from their portfolio companies. With the SEBI mandate and the drive from the MCA, the NVG-SEE will also be increasingly used. In order to quantify the similarities and differences, the indicators were mapped in the following groups:

1. Indicators related to Environmentally sustainable business practices / processes*
2. Indicators related to Ethics, transparency and accountability*
3. Indicators related to Sustainability of products & services being offered
4. Indicators related to Employee well being
5. Indicators related to adherence to human rights

The above groups have been made on the basis of the NVG-SEE. The NVG-SEE was chosen as a reference since it has been adopted by the government of India and likely to see a push from policy.

* In the survey conducted by cKinetics, the first 2 indicator sets were seen as being of greatest interest to investors. These also form the basis of the Minimum Common Requirement outlined in this report (Section 5.1 and 5.2)

I. Environmentally sustainable business practices / processes		
NVG-SEE	**GRI**	**IRIS**
I. a. Similar/ common Indicators		
• Percentage of materials used that are recycled input materials	• Percentage of materials used that are recycled input materials	• Amount of recycled materials used in products (including packaging) during the reporting period
• Total energy consumed by the business entity for its operations Use of renewable energy as percentage of total energy consumption	• Direct energy consumption by primary energy source • Indirect energy consumption by primary source	• Amount of on-site energy produced and consumed from renewable sources • Amount of purchased energy consumed from renewable sources
• Statement on use of energy saving processes and the total energy saved due to use of such processes	• Energy saved due to conservation and efficiency improvements • Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives • Initiatives to reduce indirect energy consumption and reductions achieved	• Energy conservation achieved through reducing the amount of energy needed to carry out the same processes or tasks
• Total water consumed and the percentage of water that is recycled and reused	• Total water withdrawal by source • Water sources significantly affected by withdrawal of water • Percentage and total volume of water recycled and reused • Water sources significantly affected by withdrawal of water	• Water reduction achieved through water conservation efforts in operations during the reporting period
• Statement on quantum of emissions of greenhouse gases and efforts made to reduce the same	• Total direct and indirect greenhouse gas emissions by weight • Other relevant indirect greenhouse gas emissions by weight • EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved	• Greenhouse gases emitted through organization's operations in metric tonnes of CO2 equivalent during the reporting period • Greenhouse gases emitted in metric tonnes of CO2 equivalent from direct emissions sources • Greenhouse gases emitted in metric tonnes of CO2 equivalent from indirect emissions sources
• Statement on discharge of water and effluents indicating the treatment done before discharge and the destination of disposal	• Total water discharge by quality and destination	

I. Environmentally sustainable business practices / processes		
NVG-SEE	**GRI**	**IRIS**
I. a. Similar/ common Indicators		
• Details of efforts made for reconstruction of bio-diversity	• Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff • Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas • Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas • Habitats protected or restored • Strategies, current actions, and future plans for managing impacts on biodiversity	
	• Total weight of waste by type and disposal method	• Amount of waste created by the organization's operations during the reporting period • Amount of waste disposed during the reporting period • Amount of waste disposed by composting during the reporting period • Amount of waste disposed through reuse and recycling during the reporting period • Amount of waste disposed through incineration during the reporting period • Amount of waste disposed through landfills during the reporting period • Amount of waste disposed through other means during the reporting period
	• Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	• Amount of hazardous waste created by the organization's operations during the reporting period. Note: hazardous waste as defined by national legislation at the point of generation
I. b. Other indicators (for Environmentally sustainable business practices / processes)		
	• Total number and volume of significant spills • Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation • Percentage of products sold and their packaging materials that are reclaimed by category • Monetary value of significant fines and total packaging materials that are reclaimed by with environmental laws and regulation • Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce • Total environmental protection expenditures and investments by type • Materials used by weight or volume • Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk • Emissions of ozone-depleting substances by weight • NO, SO, and other significant air emissions by type and weight	• Amount of biodegradable materials used in products (including packaging) during the reporting period • Indicate whether the organization considers social and environmental performance when evaluating suppliers • Waste reductions achieved during the reporting period through programs for substitution, recycling or recovery. Footnote calculations and assumptions • Components of the organization's environmental management system • Amount of toxic materials used in the manufacturing process during the reporting period • Amount of non-hazardous waste created by the organization's operations during the reporting period • Water reduction achieved through water conservation efforts in operations during the reporting period Conservation efforts could include low-flow toilets, rainwater collection facilities, etc. Footnote conservation strategies employed and calculation method

2. Ethics, Transparency and Accountability		
NVG-SEE	**GRI**	**IRIS**
2.a. Similar/ Common indicators		
• Governance structure of the business, including committees under the Board responsible for organizational oversight. In case no committee is constituted, then the details of the individual responsible for the oversight	• Indicate whether the organization has written **corporate governance** policies that have been communicated to stakeholders	• Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight
• Mandate and composition (including number of independent members and/or non-executive members) of such committee with the number of oversight review meetings held	• Number of **Independent** members of the organization's **Board of Directors** or governing body, as of the end of the reporting period	• For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members
• State whether the person/committee head responsible for oversight review is independent from the executive authority or not. If yes, how	• Indicate whether there is a formal **Board of Directors** committee dedicated to social and environmental performance	• Indicate whether the Chair of the highest governance body is also an executive officer
• Mechanisms for shareholders and employees to provide recommendations or direction to the Board/ Chief Executive		• Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body
• Processes in place for the Board/ Chief Executive to ensure conflicts of interest are avoided	• Indicate whether the organization has a written policy to monitor and disclose any potential conflicts of interest between the company, board members, owners, or material investors	• Processes in place for the highest governance body to ensure conflicts of interest are avoided
• Internally developed statement on Ethics, Codes of Conduct and details of the process followed to ensure that the same are followed	• Indicate whether the organization has a written **code of ethics** that has been communicated to employees	• Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation
• Frequency with which the Board/ Chief Executive assess BR performance		• Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, andsocial performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles • Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance
2.b. Other indicators (for Ethics, Transparency and Accountability)		
• Statement on significant policy advocacy efforts undertaken with details of the platforms used	• Indicate whether the organization has a written policy for client protection with mechanisms to ensure compliance • Indicate whether the organization has been found to be out of compliance with any local labor, tax, or environmental regulations during the reporting period • Indicate whether it is the organization's policy to produce financial statements that are verified annually by a certified accountant • Indicate whether the organization considers social and environmental performance when evaluating suppliers	• Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics • Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance) • Explanation of whether and how the precautionary approach or principle is addressed by the organization • Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses • Memberships in associations (such as industry associations) and/or national/international advocacy organization

2. Ethics, Transparency and Accountability		
NVG-SEE	**GRI**	**IRIS**
2.b. Other indicators (for ethics, Transparency and Accountability)		
		• List of stakeholder groups engaged by the organization • Basis for identification and selection of stakeholders with whom to engage • Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group • Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting

3. Sustainability of products & services being offered		
NVG	**GRI**	**IRIS**
3.a. Common/ similar indicators		
• Statement on whether the labeling of their products has adequate information regarding product-related customer health and safety, method of use and disposal, product and process standards observed, • Details of the customer complaints on safety, labeling and safe disposal of the products received during the reporting period	• Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements • Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes • Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	• Identify policies the organization uses to protect clients
• Statement on use of sustainable practices used in the value chain	• Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	• Indicate whether the organization has established water quality monitoring and analysis programs that account for potential contaminants and are compliant with applicable laws • Water management practices employed by the organization • Indicate the third-party **certifications** for products/services that are valid as of the end of the reporting period • Energy used by the product during the product lifetime • Energy that would have been used by the replaced product during the lifetime of the organizations product • Greenhouse gas emissions of the product during the product lifetime • Greenhouse gas emissions that would have been produced by the product replaced during the lifetime of the organizations product • Average water utilization/consumption per unit over the lifetime of the product. Footnote assumptions • Average water utilization/consumption per unit of product replaced over the lifetime of the organizations product

3. Sustainability of products & services being offered		
NVG-SEE	**GRI**	**IRIS**
3. b. Other indicators (for Sustainability of products & services being offered)		
• Statement on copyrights issues in case of the products that involve use of traditional knowledge and geographical indicators • Statement on the use of recyclable raw materials used • Statement on use of energy-efficient technologies, designs and manufacturing/service-delivery processes	• Practices related to customer satisfaction, including results of surveys measuring customer satisfaction • Programs for adherence to laws, standards, and voluntary codes related to marketing and voluntary codes related to marketing promotion, and sponsorship • Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes • Total number of substantiated complaints sponsorship by type of outcomes losses of customer data • Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	• Green building practices employed by the company • Biodiversity-related assessments undertaken by the organization • Indicate the third-party certifications for products/services that are valid as of the end of the reporting period • Indicate whether the organization uses market research to identify the needs of clients and potential clients • Frequency with which organization conducts exit surveys or informal feedback surveys from existing clients

4. Employee well being		
NVG	**GRI**	**IRIS**
4. a. Similar/Common indicators		
• Total number of employees with percentage of employees that are engaged through contractors	• Total workforce by employment type, employment contract, and region • Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	
• Statement on non-discriminatory employment policy of the business entity		• Indicate whether the organization has a written policy to recruit employees equally, irrespective of gender, race, color, disability, political opinion, sexual orientation, age, religion, or social or ethnic origin
• Percentage of employees who are women		• Number of females employed by the organization at the end of the reporting period • Number of **full-time** employees who belong to minority or previously excluded groups at the end of the reporting period • Number of **full-time** female **management** employees at the end of the reporting period • Number of **full-time management** employees who belong to **minority** or **previously excluded** groups at the end of the reporting period • Number of **full-time** female employees at the end of the reporting period • Number of female **part-time** employees at the end of the **reporting period**

4. Employee well being		
NVG-SEE	**GRI**	**IRIS**
4. b. Other indicators (for employee well being)		
• Number of persons with disabilities hired • Number of training and skill up-gradation programmes organized during the reporting period for skilled and unskilled employees • Amount of the least monthly wage paid to any skilled and unskilled employee • Number of incidents of delay in payment of wages during the reporting period • Number of grievances submitted by the employees	• Average hours of training per year per employee by employee category • Percentage of employees receiving regular performance and career development reviews • Ratio of basic salary of men to women by employee category • Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations • Percentage of employees covered by collective bargaining agreements • Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements • Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise safety committees that help monitor and advise • Rates of injury, occupational diseases, lost days, and absenteeism, and number of workrelated fatalities by region • Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases • Health and safety topics covered in formal agreements with trade unions • Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	• Number of employees who belong to **minority or previously excluded** groups at the end of the reporting period. This is the sum of all paid **full-time** and **part-timeminority** or **previously excluded** employees • Number of **part-time** employees who belong to **minority** or **previously excluded** groups at the end of the **reporting period** • Benefits to **full-time** employees • Percentage of **full-time employee's** healthcare premium that is covered. Provide a weighted average based upon number of employees if percentage differs between full-time employees • Value of wages (including bonuses) paid to all **full-time** and **part-time** employees during the reporting period • Value of wages (including bonuses) paid to all female **full-time** and **part-time** employees during the reporting period • Value of wages (including bonuses) paid to all **full-time** and **part-time** employees who belong to **minority or previously excluded** groups during the reporting period • Value of wages (including bonuses) paid to all **full-time** employees during the reporting period • Value of wages (including bonuses) paid to all female **full-time** employees during the reporting period • Value of wages (including bonuses) paid to all **full-time** employees who belong to **minority or previously excluded** groups during the reporting period • Value of wages (including bonuses) paid to all **full-time management** employees during the reporting period • Value of wages (including bonuses) paid to all **full-time** female management employees during the reporting period • Value of wages (including bonuses) paid to all **full-time management** employees who belong to **minority or previously excluded** groups during the **reporting period** • Value of wages (including bonuses) paid to all **part-time** employees during the **reporting period** • Value of wages (including bonuses) paid to all female **part-time** employees during the **reporting period** • Value of wages (including bonuses) paid to all **part-time** employees who belong to **minority or previously excluded** groups during the **reporting period** • Value of wages (including bonuses) paid to all **temporary** employees during the **reporting period** • Calculation: (wages of highest paid employee during the reporting period) / (wages of lowest paid employee during the **reporting period**) • Components of the organization's occupational worker safety policy • Number of employees (**full-time, part-time**, or **temporary**) that were trained through programs provided by the organization (both internally and externally) during the **reporting period** • Number of training hours provided for employees (**full-time, part-time,** or **temporary**) during the **reporting period** • Costs incurred by the organization as a result of training provided to employees (full-time, part-time, or temporary) during the reporting period. Note: These costs should not include salary/payroll expenses that are incurred during the training hours • Number of the organization's teachers, educators, or instructors that received training /education during the **reporting period**

4. Employee well being		
NVG-SEE	**GRI**	**IRIS**
4. b. Other indicators (for employee well being)		
		• Number of training hours provided for the organization's teachers, educators or instructors during the **reporting period** • Indicate whether any of the organization's **Board of Directors** members participated in training sessions related to any aspect of **social performance management** during the reporting period • Areas of social performance training provided by the organization • Number of the organization's **caregivers** that received training during the **reporting period** • Number of training hours provided to the organization's caregivers during the **reporting period** • Indicate whether the organization has a written policy to combat **sexual harassment** in line with internationally-recognized standards • Indicate whether the organization has a written child labor policy in line with International Labour Organization (ILO) standards

5. Adherence to human rights		
NVG-SEE	**GRI**	**IRIS**
5. a. Common / similar indicators		
• Statement on complaints of human rights violations filed during the reporting period	• Total number of incidents of violations involving rights of indigenous people and actions taken • Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	• Indicate whether the organization has a written code of ethics that has been communicated to employees • Indicate whether the organization has a written child labor policy in line with International Labour Organization (ILO) standards
• Statement on the policy of the business entity on observance of human rights in their operation		• Indicate whether the organization considers social and environmental performance when evaluating suppliers • Indicate whether the organization has a written policy for client protection with mechanisms to ensure compliance
5. b. Other indicators		
	• Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken • Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained • Total number of incidents of discrimination and actions taken • Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights • Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor • Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor • Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	

ENDNOTES

[1]A more detailed description of these investors is available in the report titled: "Landscape of Environmental and Social Performance Disclosure and reporting." It is available for download at www.ckinetics.com/crackingtheconundrum

[2]A more detailed description of these investors is available in the report titled: "Landscape of Environmental and Social Performance Disclosure and reporting." It is available for download at www.ckinetics.com/crackingtheconundrum

[3]Website "Ministry of Corporate Affairs" as on 31 October 2012; http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

[4]Website "Ministry of Corporate Affairs" as on 31 October 2012; http://www.mca.gov.in/MCA21/

[5]Website "Ministry of Corporate Affairs" as on 31 October 2012; http://www.mca.gov.in/Ministry/pdf/Disclosure and reporting_Framework_Committee_Report.pdf

[6]Website "Ministry of Corporate Affairs" as on 31 October 2012; http://www.mca.gov.in/Ministry/pdf/Draft_Disclosure_Framework_Committee_Report.pdf

[7]Research was conducted to evaluate the disclosure and reporting on 35 indicators across E, S & G parameters and the data collected was scored on the quality of disclosure and reporting -

0	No disclosure and reporting
0.25	Disclosure and reporting: no data
0.5	Disclosure and reporting: absolute data
0.75	Disclosure and reporting: relative data
1	Disclosure and reporting: absolute data over time
1.25	Disclosure and reporting: relative data that is benchmarkable
1.5	Disclosure and reporting: relative data over time
1.75	Disclosure and reporting: relative data over time that is benchmarkable

[8]Website "Securities Exchange Board of India" as on 31 October 2012; http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf

[9]Report "Public Sector Enterprises in India - Catalyst for Growth"; Deloitte; Pg. 5; http://www.indianchamber.org/policy_forms/3.pdf

[10]Website "Department of Public Enterprises" as on 31 October 2012; http://www.dpe.nic.in/sites/upload_files/dpe/files/SD_Guidelines_030312.pdf

[11]Website "Institute of Chartered Accountants of India" as on 31 October 2012; http://icai.org/post.html?post_id=691

[12]Report "A new phase: the growth of sustainability reporting; GRI's Year in Review"; GRI, Pg. 7 https://www.globalreporting.org/resourcelibrary/GRI-Year-In-Review-2010-2011.pdf

[13]Report "CDP India Report 2011- Accelerating Low Carbon Growth; CDP; Pg. 4; https://www.cdproject.net/CDPResults/CDP

[14]Website "SMERA" as on 31 October 2012; http://www.smera.in/MOU.aspx

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RELATED WORK

LANDSCAPE OF ENVIRONMENTAL AND SOCIAL (E&S) PERFORMANCE DISCLOSURE AND REPORTING IN INDIA

This document lays out the landscape for Environmental and Social (E&S) performance disclosure and reporting in India; with the goal of informing Finance+ investors, policy makers and the multi-stakeholder led initiatives, on the complementarities and gaps that exists between them if they were to seek a standardized E&S performance and disclosure framework. Unlike most reports that have been done on the subject of E&S performance and disclosure which are from a business perspective, this document looks at the issue specifically from an investor point of view and makes the case for standardization of E&S impact measurement for investors.

For more details on this report, visit www.ckinetics.com/crackingtheconundrum or contact the authors of this report.

TASK FORCE ON PLANNING INSTITUTIONAL ENGAGEMENT FOR IMPACT DISCLOSURE

Defining how investors can work with existing institutions to advance disclosure of impact in businesses

cKinetics, in association with the Deutsche Gesellschaftfür Internationale Zusammenarbeit (GIZ) and the Impact Investing Policy Collaborative (IIPC), has convened an E&S Disclosure and Reporting working group under the Sustainable Business Leadership Forum (SBLF) to answer the following question (albeit primarily with an investor lens):

1. What are steps needed to coordinate actions between existing institutions to increase the prevalence of impact disclosure from businesses in India?

2. When, where and how should these steps be undertaken to promote deployment of investment capital looking beyond a pure financial return?

The work is expected to align with the ongoing consultations of the Indian Institute of Corporate Affairs (IICA) as pertains to the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business (NVG-SEE)..

For more details on this task force and to stay updated visit http://sblf.sustainabilityoutlook.in/about-the-forum/about-sblfor contact George Alexander Wilbanks (awilbanks@ckinetics.com)

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